DAIRY INDUSTRY

HEARINGS

BEFORE THE

SPECIAL SUBCOMMITTEE TO INVESTIGATE THE DAIRY INDUSTRY IN THE UNITED STATES

OF THE

COMMITTEE ON AGRICULTURE HOUSE OF REPRESENTATIVES

EIGHTY-THIRD CONGRESS

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CONTENTS

	Page
Statement of—	
Bush, R. B., manager, Lucerne Milk Co., accompanied by Arthur Hanson, attorney	399
Castle, Benjamin F., executive director, the Milk Industry Foundation, accompanied by E. B. Kellogg, secretary	369
Additional data submitted to the committee by—	
The Milk Industry Foundation:	
Net profit after taxes as part of the sales dollar (chart)	375
Where the consumers' milk dollar goes (chart)	376
Where the milk dealers gross margin goes (chart)	377
Your best food buy	382–386

DAIRY INDUSTRY

THURSDAY, JUNE 11, 1953

HOUSE OF REPRESENTATIVES,
COMMITTEE ON AGRICULTURE,
SPECIAL DAIRY SUBCOMMITTEE,
Washington, D. C.

The subcommittee met at 10 a. m., pursuant to call, in room 1310, New House Office Building, Representative Andresen (chairman), presiding.

Present: Representatives Andresen (chairman), Williams, Dague, Golden, Jones, and Simpson.

Mr. ANDRESEN. The committee will come to order. The subcommittee is now resuming hearings on the dairy situation, going into particular details on the overall subject in our survey to find out what the difficulties are with the dairy business. We are opening our hearings on the general subject this morning, having a statement from Mr. Benjamin F. Castle, the executive director of the Milk Industry Foundation. Mr. Castle is a man well-informed in problems of the dairy industry. His foundation has made a survey of the disposition of the milk dollar. I know that our committee will be interested in the findings of his organization. We will be very glad to hear you, Mr. Castle, this morning. Do you have a prepared statement?

Mr. CASTLE. No; I do not have a prepared statement.

Mr. ANDRESEN. You may proceed in your own way and tell us what the Milk Industry Foundation has found in its investigation, and also any recommendations that you might have to improve the status of the dairy industry.

STATEMENT OF BENJAMIN F. CASTLE, EXECUTIVE DIRECTOR OF THE MILK INDUSTRY FOUNDATION, ACCOMPANIED BY E. B. KELLOGG, SECRETARY OF THE MILK INDUSTRY FOUNDATION

Mr. CASTLE. Mr. Chairman and gentlemen, we are of course delighted to be here. We consider it a privilege. I would like to lay the foundation for an understanding, principally because it will be in the record and not because I have any idea that you gentlemen do not have a clear understanding of the difficulty between what is called the uniform price or the blend price received by farmers and the class 1 price which is the price our industry—meaning the fluid milk distributing industry—pays for milk. You may wonder why I mention this, but I have a very definite reason, because in a hearing conducted by your sister chamber there was a gross misunderstanding. Remarks were made comparing the average blend price per quart with the highest retail price per quart, arriving thereby at a distorted

spread. So for the record I want to say that in the Federal marketing areas—maps of which I will show you in a minute—the farmer receives a blend price or a uniform price for the operations of a given month. The highest price or class 1 price is paid by those distributors and processors who buy fluid milk at the class 1 price.

Milk that they use for other purposes, such as evaporated milk, or for butter or for dried milk, is priced by the Federal Government to the farmer at a lower price and the farmers share equitably in the total dollars that are placed in the pool. But you must always go back to the fact that the fluid milk distributor is the man who pays the highest price.

Mr. ANDRESEN. Mr. Castle, if you will permit: What you are about to explain to the committee applies particularly to the milk marketing areas and not to the manufactured milk areas because out in my section the farmers received last month $3.10 for 3.5 milk. That is the price they got for all their milk. It will probably be lower for the month of June.

Mr. CASTLE. That is very interesting because in Chicago the uniform price for April was $3.82, but the class 1 price was $4.197.

Mr. ANDRESEN. What was the blend price?

Mr. CASTLE. $3.82 for 3.5 milk, in April. For May, we do not have the blend price. We have the class 1 price. There is always, of course, a very wide spread between the uniform price or the blend price and the class 1 price.

But the man who distributes the fluid milk, the man I am interested in, must pay that class 1 price for the bottled milk that he sells. On the other side of the picture people have a tendency to look at the highest retail price in a market forgetting that the highest retail price represents, we will say, a high butterfat, vitamin D, homogenized milk, selling at let us say 23 cents a quart, whereas the rest of the milk in the market—retail I am talking about—will sell at 22 cents a quart. But the milk dealer does not get 22 cents a quart for each quart he sells. He gets the average of his wholesale price to the stores, to the institutions, to the Army, to schools, and the retail price. So his price, you must always remember, is something below the highest retail price reported.

I get back to my thesis that the proper spread is a spread between the class 1 price, paid by the milk distributor, and the average price which he receives. That, of course, is where he has to perform his operations.

Mr. ANDRESEN. What is the difference in the Chicago area on the two prices that you quoted?

Mr. CASTLE. The difference as of April, the difference is between $4.197 and $3.82.

Mr. ANDRESEN. Do you have have the New York figures?

Mr. CASTLE. No, sir; I do not have them with me.

Mr. ANDRESEN. Is the differential about the same?

Mr. CASTLE. I would be guessing but I think it would be. What do you think, Mr. Kellogg?

Mr. KELLOGG. I think it might be, except that New York may have a little lower class 4 volume, which would bring the blend price a little closer to the class 1 price.

Mr. ANDRESEN. Then as I understand it the producer in the Chicago area receives the $3.82, whereas when milk is sold through retail distribution channels it is sold on the basis of $4.19 to the purchaser, and the customer is now paying an average price in the country of 23 cents a quart.

Mr. CASTLE. No, sir; that is not the case. What the farmer receives is the blend price, but in that price is the $4.197 which is paid by the milk distributor for class 1 milk. $4.197 in the month of April in Chicago. But when they took the weighted average of the milk used for other purposes—which I am presently not interested in, I am in the fluid milk side—the farmer got $3.82, but he still got $4.19 for every pound of milk that was sold to the consumers in fluid form. Never forget that. He gets the class 1 price. Our industry, which takes about 50 percent of the milk crop, pays the highest price for milk all the time, year in and year out. I would like to say something about the $4.19 class 1. You have to add a differential to that for butterfat. The butterfat base in Chicago is 3.5, but for every point, every decimal point over 3.5, the dealer pays seven-tenths of a cent. So you can be mighty sure that the class 1 price was somewhat higher than $4.19.

I would like to show you what it is in the Federal Government and the State government that provides a floor for the dairy farmer. When you see it on a map of the United States it is quite astonishing. The yellow hachured portions of the map represent an overlap of State and Federal. The plain yellow parts of the map represent State milk control boards. The pink hachured parts which you now see spreading down into Texas in a big way, covering to all intents and purposes the Middle West, those represent Federal marketing areas, and then there is one in Washington, in the Northwest.

What do the Federal marketing orders provide? They provide a minimum price for the farmer. Every milk handler and every milk processor in that area must pay that minimum price to the farmer. So the dairy farmer has a minimum price. I should remark in passing that there are 17 States that have State milk control boards. Some of those States, in fact 13 of them, fix the retail price, the minimum retail price. So we can say that our industry—we did say when they put in OPS and had to have a new set of controls—we said "What is all this control business about? We have been controlled for years and we still are controlled." Of course the dairy farmer, through the operation of the Federal marketing orders and/or the State milk control boards, is guaranteed a minimum price for his milk which responds to economic conditions, demand and supply, and price of feed and so on. I wanted to mention that, to lay the foundation for the fact that the dairy farmer is not unprotected, he is not helpless. He has the bargaining power which he should have, created by two things. One, the fine organizations of the dairy co-ops. That is exemplified by the National Milk Producers Federation. All of you here know Charles Holman. His members are in the co-ops throughout the country. They bargain not at arms length with the milk distributors but with adequate economic facts to back them up and so on. So you have your well-organized milk co-ops.

You have your State milk-control boards and you have your Federal marketing orders which give the dairy farmer, I would say,

adequate protection. They give him price protection. Then in those States which fix the retail price of milk, the consumer has a ceiling placed on the price. Of course the best controller of retail prices is competition. If you took off all of the controls from the various States that have milk-control boards, if the price of milk moved up, it would be because of some basic economic factor. The chances are that it would go down because somebody would see a way to be a little smarter than the other fellow and the whole market would have to move down. But anyway, there is the picture of the milk marketing, starting with the floor placed by the agencies or the farm milk producer, and ending up with those States that impose a ceiling on the price.

Mr. ANDRESEN. Mr. Castle, you mentioned about the price to the consumer. This price average over the country would be 23 cents a quart.

Mr. CASTLE. 22.1, I think.

Mr. ANDRESEN. It may have gone down a little but I do not notice any particular drop in the Washington area because I am paying the same price now that I paid during the short milk production.

Mr. CASTLE. Mr. Andresen, are you getting milk here for 23 cents a quart?

Mr. ANDRESEN. No, I am paying 25 cents a quart.

Mr. CASTLE. I do not see how they can do it. That is 12½ cents a pound for the most perfect food. I congratulate you.

Mr. ANDRESEN. Let me make this observation. You mentioned the law of supply and demand operating. Now we are in the pink of the flush season at the present time on milk production. In fact, we have so much milk being produced that I was under the impression that the retail price would go down because it has gone down to the producer, at least in my area, in what he receives. There is more milk going into manufactured products than we have had for several years because of the tremendous surplus. I thought the price here to the consumer would come down so that the consumers could probably use 2 or 3 quarts of milk a day instead of 1 quart a day.

Mr. CASTLE. That would certainly please us but I can give you a little clue, if it has not come down in the Washington market.

Mr. ANDRESEN. I was hoping that your study would include the cost of distribution and labor costs and the other factors that enter into it, to show why the price of milk to consumers has not come down.

Mr. CASTLE. We will give you that breakdown in a minute. Specifically in Washington you have a takeout-payback plan. In this period of flush production there is 40 or 50 cents a hundredweight taken out and set into a fund, and in the fall, when milk production goes down, that money is paid to the producers who still are in the business. In this flush season the dealers are paying practically the same as they paid 2 or 3 months ago because of the take-out-putback plan.

The other thing is the increased wages. We cannot prevent wages from going up, and they have gone up in the Washington area.

Mr. ANDRESEN. I have heard some talk of a strike in the Washington area. I hope that you can discuss in detail and show us illustrations of the wages and wage increases that have taken place in the distribution of milk so that we may be able to answer some of the questions that are asked us as to why the price of milk has not come down.

Mr. CASTLE. Mr. Kellogg tells me that the price of 3.5 milk in Washington today, the price that our distributors pay, is $6.60. You can see that compared to your State that is relatively high.

Mr. ANDRESEN. Maybe we ought to ship a little of that good milk from our area into this closed-shop checkoff system area that they have in Washington.

Mr. CASTLE. If it could be done I am sure that it would have an effect on price level. But I understand there are some reasons why it cannot be done. Now I would like to show you another chart that illustrates a point. There is a lot of talk about the farmer's share of the consumer's dollar, and I thought you would be interested in seeing where fluid milk stands and what percentage of its consumer dollar goes to farmers. It stands third as of 1952. It was 59 cents of the consumer's dollar that went to farmers. Eggs beat us, they give 70 cents. Pork 61, and so on down the line. White bread gives 15 percent. There are good economic reasons for all of those. We are always very pleased when we can point out that more than 50 cents of our dollar—not of our dollar, the consumer's dollar—goes to the farmer. That is just a little aside, so to speak.

Now we come down to the consumer's milk dollar. That is what you want to know; where does this go? What does the dollar pay for besides milk? This is based upon a survey of 313 milk dealers in 42 States, conducted by the University of Indiana School of Business. You might say: Why do you come in here with a 1949 date? There are two reasons for that. No. 1 is that we have kept continuous unofficial study of the milk dollar over the years, and we find they do not vary from year to year. The second is that another Indiana University study, which is going on now, has not been completed. But I can assure you that these are very close.

If we had a 1953 study today, there would be very little difference. Let us start with the consumer's dollar represented by material costs, 61.9 cents. That does not mean that we pay 61.9 cents for milk alone, but there are about 10 cents in there for flavoring and things that have to do with the preparation of the product for the consumer. So our total material costs, out of a dollar of sales, are 61.9, of which the farmer receives about 59 cents. What is the next big segment of this chart? It is salaries and wages. I am not talking about executive salaries. I am talking about clerical plant salaries and so on, and delivery wages that the chairman is so much interested in. As of 1949 they took approximately 21 cents—20.8. When you add those two together you get 82.7 cents out of the dollar which must be expended for material costs and salaries and wages. That leaves mighty little for management to operate on. Even that is reduced because management does not make its containers. It may fabricate them, assemble them, but it does not make them.

So the container costs are beyond their control. That takes 4 cents just for containers, glass and paper, large and small, half pints and now we have half gallons, as you know. All plant deliveries and office supplies, 5.2 cents. We are getting up now past 90 cents. You see here we had over 80 cents. Then you have depreciation, insurance, and all other expenses, 3 cents. Taxes and licenses, 2.2

I do not think anybody in the dairy industry ever has an excess-profits tax, but we would like it if we did. Anyway, 2.2 percent of

the consumer's dollar we take in goes out for taxes and licenses. Advertising, we spent six-tenths of a cent. It leaves net operating profit of 2.17 cents. The thing that you would like to know is how much does that mean per quart? Many people say "How much does a milkman make on a quart of milk?" It is very startling to find that he makes about two-fifths of a cent per quart. You would throw up your hands and say that is not even a business; that is ridiculous.

Mr. ANDRESEN. That is the net profit?

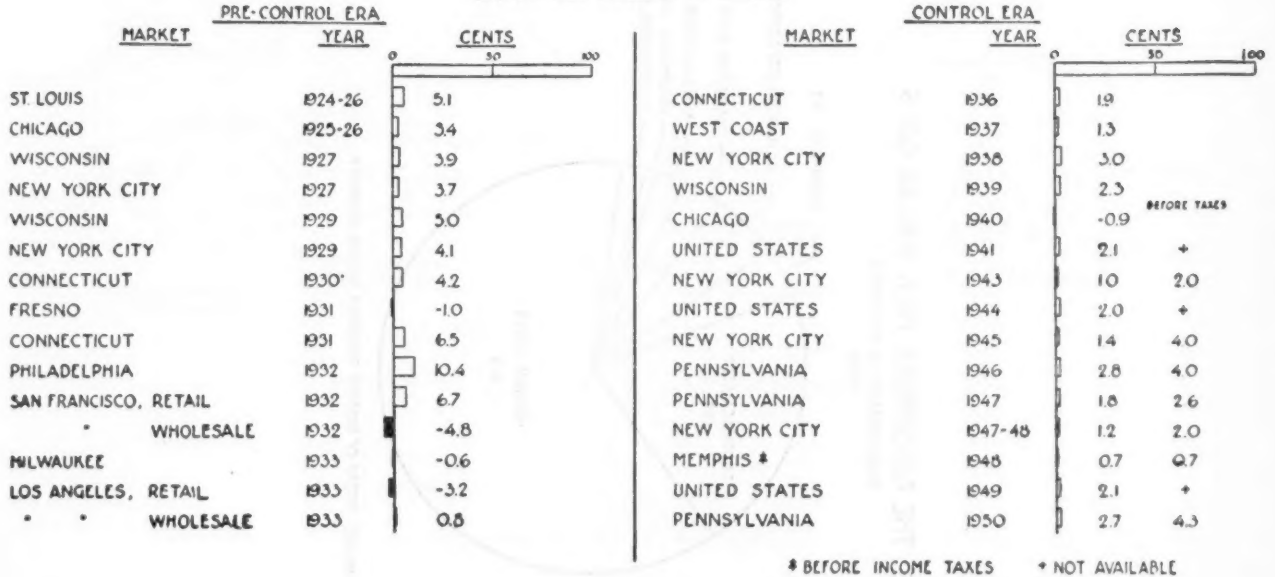
Mr. CASTLE. That is the net after taxes, divided by the number of quarts. Remember that this is a dollar, and I am talking about a quart now. So the net is about two-fifths of a cent per quart. Any businessman who did not stop to think would say "Why do the silly fools stay in the business? Who can deliver a quart of milk for two-fifths of a cent profit and stay in business?" The answer is that there is a high turnover, and the other thing is that if you do not have volume you might just as well not start, because nobody could make a living selling milk on the basis of two-fifths of a cent per quart, unless he had volume. So the tendency in our industry has been for ways and means to be devised whereby bigger loads can be carried on the wagons, thereby reducing the cost of labor.

I would like to take a minute or two to show you again where this gross margin goes. After we pay the farmer—I am talking about the gross margin after paying for materials. The sources of these are the Indiana University and Pennsylvania Milk Control Commission, and the Tennessee Department of Agriculture. They come pretty close. In 42 States in 1949, salaries and wages took 54 percent of the spread. Containers took 10.6, depreciation and all other expenses 8 percent, advertising took 2, net operating profit was 5.4. You divided that by 2 to get the return per dollar. Here in Memphis, a survey made by the Department of Agriculture, shows that salaries and wages took 52.1 percent of the gross margin. The operating profit was 2.1. They pretty closely coincide in those three areas. I thought you would like to have it. We have made copies of these for the record.

(The document referred to above is as follows:)

NET PROFIT AFTER TAXES AS PART OF THE SALES DOLLAR

(CENTS PER DOLLAR OF SALES)

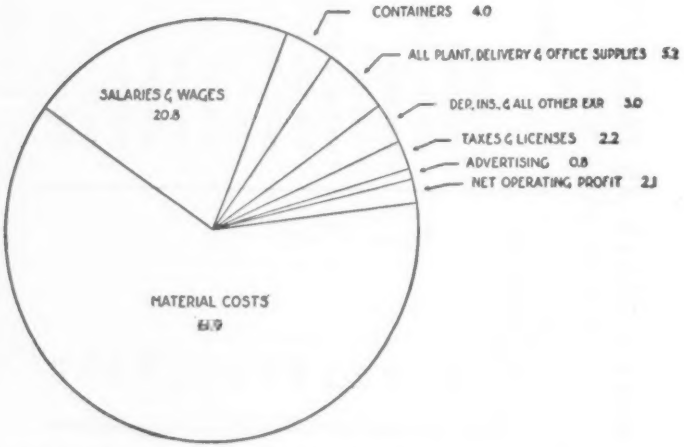


* BEFORE INCOME TAXES + NOT AVAILABLE

SOURCE: VARIOUS FEDERAL, STATE AND UNIVERSITY STUDIES

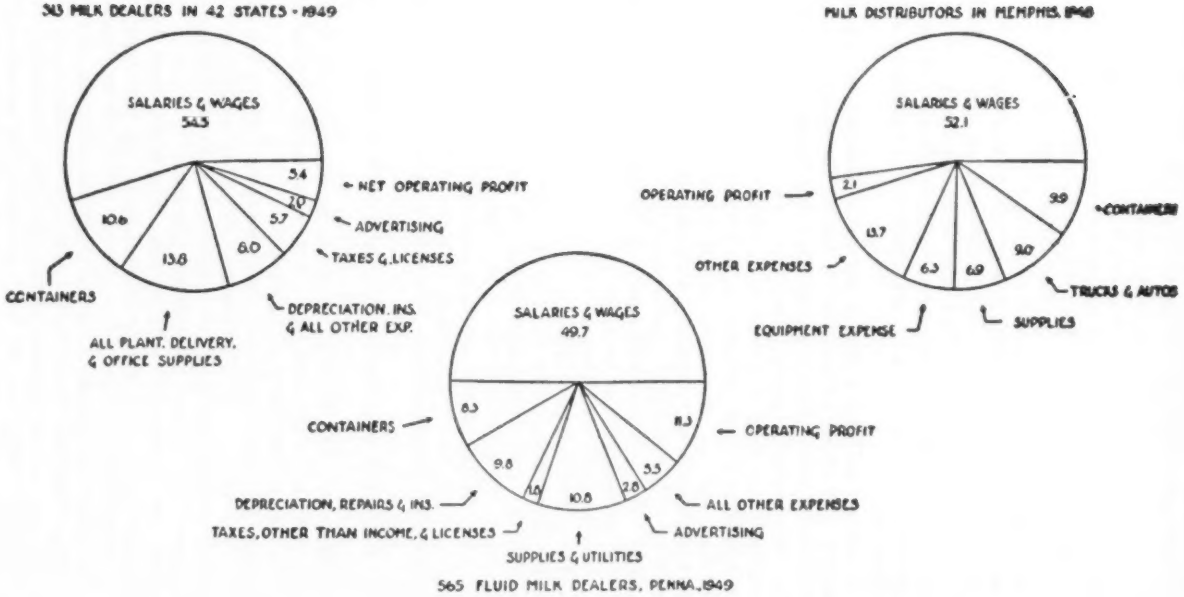
WHERE THE CONSUMERS' MILK DOLLAR GOES

313 MILK DEALERS IN 42 STATES
1939



SOURCE: BUREAU OF BUSINESS RESEARCH, INDIANA UNIVERSITY

WHERE THE MILK DEALERS GROSS MARGIN GOES



SOURCES: BUREAU OF BUSINESS RESEARCH, INDIANA UNIV.; SURVEY OF THE DAIRY INDUSTRY IN PENNA.; 1949 ANNUAL SUMMARY, PENNA. MILK CONTROL COMMISSION; COSTS AND MARGINS OF MILK DISTRIBUTORS IN MEMPHIS, TENN.; U.S.D.A., (B.A.E.) IN CO-OPERATION WITH TENN. AGR. EXP. STA., 1950

Mr. CASTLE. One reason we have no hesitation in showing you the 1949 figures is that we have gone back to 1924, and we have been tracing right straight through. These are all official figures. In the last several years there has been very little deviation. So we are very confident. I would like Mr. Kellogg to discuss this chart a little because this has to do with labor efficiency, the thing that I know some of you are interested in. It goes back to 1935 and it was only carried through to 1948. This is Mr. E. B. Kellogg, secretary of the Milk Industry Foundation.

Mr. KELLOGG. This is a chart of indexes that we had operating from 1936 to 1948, indexes of sales, average daily sales of milk and of employment and payrolls, all in the fluid milk business. When we carried that series along for that period, using 1936–38 as the base of 100, and then divided one index by the other, we developed the index of labor efficiency.

You will notice this brown line is the milk handled per employee by the industry. Several hundred milk companies contributed these figures. The volume handled per employee went way up to 176 percent of the base period, approximately, in 1945, and then dropped down a little bit, but it is still way up. That means that these employees are handling 76 percent more milk per employee than they did back in the base period. It indicates the labor efficiency that milk plants have been able to work into their operations.

Mr. ANDRESEN. How do the wages compare?

Mr. KELLOGG. The pay per employee is this blue line. That goes up to around 190 percent of the base period. Then the milk handled per dollar of payroll you will notice came up a little bit, during the war, and slipped down to probably about 80 to 82 percent of the base period. So the pressure of wage and salary, wage increases all through this period, has a little more than offset the increased efficiency of milk handled per employee. It has taken up that gap.

Mr. ANDRESEN. What year is the base period?

Mr. KELLOGG. 1936 to 1938, average.

Mr. ANDRESEN. We had our largest production of milk in the country in 1944, I think it was, when we had around 121 billion pounds. The production for last year is estimated at around 115 billion pounds. We have had an increase in the population during those years of around 30 million people. Now we have less milk, more people, and a higher price. What is the trouble? Are the people drinking less milk on the basis of per capita production?

Mr. KELLOGG. The fluid milk sales have gone up. They are almost the highest in our history. They were up a little higher in this period than here [indicating], but they are considerably above prewar.

Mr. ANDRESEN. Do you mean on a per capita basis?

Mr. KELLOGG. On a per capita basis, yes. The Bureau of Agricultural Economics has been revising their figures on per capita consumption of fluid milk and they are not all available on their new series. So we cannot have that. But the milk consumption in a group of Federal order markets where they have a quite good control over the size of the area, is 106 percent in 1952 of 1947, 1947 being at this point [indicating]. That would indicate that milk consumption is still going up to some extent. I think that is greater than the population increase in those markets although I could not be sure.

Mr. ANDRESEN. That does not apply to all dairy products?

Mr. KELLOGG. No. That applies to fluid milk. These charts apply to fluid milk. Of course we have lost a lot of the butter market which is not in our province, but that is where a lot of that production has gone. Fluid milk has absorbed quite a bit of that loss.

Mr. CASTLE. We have a chart on page 19 of "Milk Facts" which shows how the 1951 milk supply was used. You will notice that fluid milk in that chart took 40 percent of the total milk crop. Excluding milk used on the farm, our industry absorbs, on its latest figures, about 45 to 50 percent of the total milk and cream sold by farmers. Naturally we are in the business of selling fluid milk and if we could get it up to 75 percent of the milk crop we would be very happy and the farmer would be, too, because we pay him more than any other user of milk. The butter people took, in 1949, 21.1 percent, not including the farm butter, and cheese took 10 percent of the milk crop. Evaporated and condensed milk took 6.1, and ice cream took 6. Calves took 3, and dried whole milk was a little less than 1 percent. The great big user of fluid milk and the one that pays the farmer the most of, course, is the fluid milk distributor, the milkman to you. You very properly asked something about—I think you would have asked, if you didn't—what are we trying to do to offset the impact of the high wages for delivery and plant.

Gentlemen, bear in mind that you have union labor in most of the areas. When the drivers get a certain direct wage and certain fringe benefits the plant employees generally get the same. So there is not any wide gap nowadays between drivers and plant men. How have we discharged our responsibility to the public to try to keep the impact of these increased wages from being reflected totally in the price of milk? It began in World War II when we started every-other-day delivery which stepped up the average load from 300 to 450 quarts. That was one of the biggest steps made in cutting down the cost of delivery. It cut the cost or held back the cost about a cent and a half a quart. Some people estimate it at 2½ cents a quart. That clearly was our duty and we did have the cooperation of the labor unions in that.

Mr. ANDRESEN. What effect did that have upon the wages paid to labor?

Mr. CASTLE. The wages went up, but we held back, by going into every-other-day delivery, we reduced the cost by having greater loads. When you have 1 man handling 450 quarts as compared to 1 man handling 300 quarts, obviously you have got a more economical operation. The next step, after World War II—it began in World War II—was three-times-a-week delivery, which was a step in the direction of making more economical plant operation and less costs for delivery.

Now we are having no Sunday deliveries in many cities, which is not only a social gain in my opinion, but it is a business gain. It has advantages to the plant economy and it has advantages to the housewife. On the distribution side we increased the loads and the labor unions did cooperate. There is another development that the dairy farmer is helping with and that is the tank pickup, the farm tank pickup. You are all familiar with the 10-gallon can at the roadside waiting for the truck to come along, picking it up and taking it to the receiving plant. There are many farms today in the country where, connected directly with the milking machine, is a cooled tank. The milk flows directly, literally directly, from the cow into the tank.

The next morning or that afternoon along comes a big tank truck. They attach a hose, open the valve of the tank on the farm, and the milk is pumped into the big tank truck and away it goes. You have eliminated the handling of literally hundreds of 10-gallon cans, the expense of buying the cans, the washing of the cans, and so on.

Mr. ANDRESEN. When do you weigh it?

Mr. CASTLE. I think there is an automatic weigher on the tank. Mr. Kellogg is much more familiar with that than I.

Mr. KELLOGG. That is a subject that the National Conference on Weights and Measures has been very much interested in, as you can imagine. Each tank on the farm is calibrated to a stainless steel rule that is put in a very set position in the tank. You measure off the depth of the milk and refer to a chart on the wall for each individual tank, and read the number of pounds of milk.

Mr. WILLIAMS. How do you test as to butterfat content?

Mr. KELLOGG. The man doing the picking up with this tank truck is a licensed tester for the purpose of taking a sample.

Mr. WILLIAMS. He takes a sample of each?

Mr. KELLOGG. He takes a sample, and has a specially refrigerated box in his truck to hold that sample. His procedure, incidentally, is to come into a milkhouse and immediately start the pump to stir up the milk. Then he gets out his hose, a special plastic hose, hooks it up to the tank, and for a period of 3 minutes that tank is stirred.

Then a sample is taken, a measurement is made, and it is pumped into the truck. The interesting thing is that the farmers are finding out now that we are losing more milk than they ever realized in the 10-gallon cans through the stickage of milk to the side of the can, through spillage, both in the milkhouse and en route from the farm.

They particularly lost cream that stuck to the sides of the can when the night before milk was being picked up and poured out. So they are getting a little more poundage and higher tests through this bulk tank on the farm. We all like it very much.

Mr. CASTLE. Thank you. There is another point I would like to bring out, Mr. Chairman and gentlemen. When we talk about the wages of a man we have to think about the character of the work he is doing and the type of man he has to be. Sometimes you hear of the wages of milk drivers, and they sound pretty high to you, perhaps.

Mr. ANDRESEN. I have heard that in certain areas some milk drivers make from $10,000 to $15,000 a year.

Mr. CASTLE. I think there are a couple of cases of wholesale drivers in Chicago. I do not know how many, but probably a couple in Chicago, who make $15,000. They have enormous trucks, they have a helper that they pay themselves, and of course it sounds and it is a big salary. But that is not the average. The average in Chicago is $145 a week for the wholesale route salesman, and the average retail is $92 a week.

I am not the spokesman for the labor unions or anything of that sort, but I do want to say this: that you cannot have an unreliable, sloppy man delivering milk to a home. You have to have a man of considerable character and reliability. He has to be a man who can be trusted with the key of the house. We know of plenty of instances where the housewife gives him a key and he goes in and puts the milk in the icebox. He is driving in residential neighborhoods where there are children playing, and so on.

He is handling money, he is handling a very valuable and easily perishable food. You can't just take a lot of milk drivers, or driver salesmen out of the hopper. So they are skilled men. We must admit that. And they are men of character. One must consider the work they do and the character that they have to have.

One of my favorite things is to say to somebody who complains about the price of milk take a quart of milk down to the express company and ask them to deliver it to your house and see what they will charge. The answer is 50 cents just to deliver a quart of milk from the express company to your house. If you take it to the post office, it would be 19 cents. You furnish the milk, you furnish the container, you furnish the ice and so on.

That is a ridiculous comparison, perhaps, but I make that to emphasize. Here is something much more interesting on what the price of a quart of milk in 1950 was. In terms of a day's wage purchasing power, in 1910 the average purchasing power of a day's wage would buy 22 quarts of milk, and milk was considered fairly cheap.

So with a day's wage you could buy 22 quarts. In 1950, with a day's wage, you could buy 63 quarts. We are very proud of that. That shows that the milk industry has done a job of processing, efficient processing, and in offsetting the increase in wages.

We have another little chart here that I think is rather interesting. I tried to be a little facetious, Mr. Chairman, when I said I thought it was a wonderful thing that you could get 2 pounds of food for 25 cents, 12½ cents a pound. But this is what I was driving at. This is what you have to pay for other foods in order to get the equivalent nutrition of a quart of milk.

You have to pay 42 cents. The same quart of milk in 1950 was 20 cents. We have a saying that we like to repeat to the housewife, and that is "40 percent of your daily food requirements for 25 percent of your food dollar." That is a true statement and an unassailable statement. It is regrettable that most people do not realize the nutritive value of milk and they do not realize the economic value of milk.

They do not realize it is a fine protein and that it has so many minerals and vitamins in it that it is really a remarkable buy.

You would expect me to say that, but I can prove it. There is not time right now.

Mr. ANDRESEN. I certainly would like to have you prove it because I think certain branches at least of the dairy industry have been somewhat lame in proving the nutritive value of dairy products.

Mr. CASTLE. Well, sir, we will be very happy to send you and the members of the committee a little short pamphlet that just details the nutritive value of milk. We have a little film that we show, but I did not think you would want me to do it. That is something that we can prove, and the facts are unassailable because we didn't gather them, they were gathered by scientists.

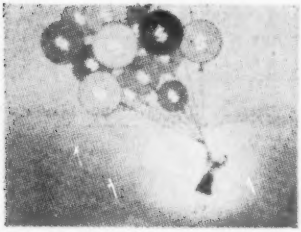
I would like to have the privilege of submitting to you that little book. It will not take you more than 5 minutes to go through it. It is a little pamphlet.

Mr. ANDRESEN. We would like to make that a part of the record.

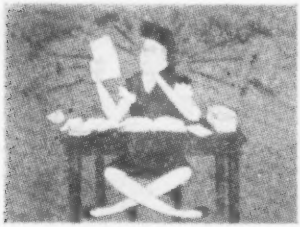
Mr. CASTLE. We will see that it is furnished to you.

(Material referred to above is as follows:)

Milk Industry Foundation

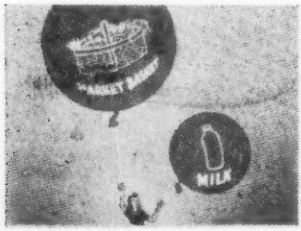


1 *Because today's prices of everything, including food her family needs, are way up . . .*



2 *. . . the housewife is finding it more and more difficult to stretch her family's food budget.*

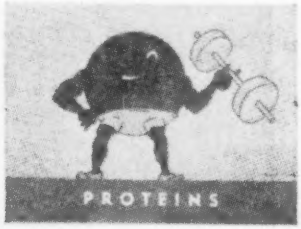
3 *She is looking for bargains, real bargains in the food she has to buy for her family.*



4 *Government figures prove that milk has gone up far less than all major food groups combined.*

5 *This is the real food bargain she has been looking for in nutritional value.*

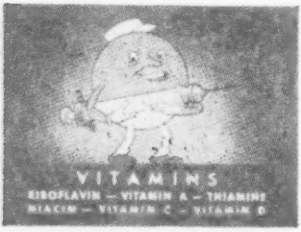
6 *Milk contains all the food elements required for growth, vitality and health. They are . . .*



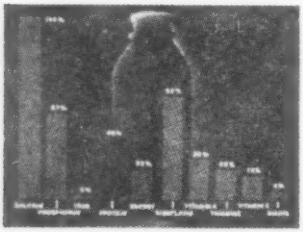
7 *Proteins, essential to growth, help build strong muscles by replacing worn out tissues.*

8 *Carbohydrates—fats. They provide the fuel to keep us warm and the energy we need.*

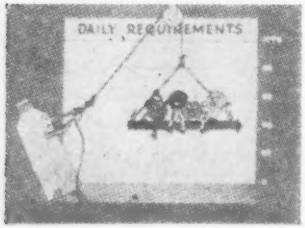
9 *Minerals — calcium and phosphorus for bones and teeth. Iron for rich blood.*



10 *Vitamins. They help us fight disease by building up our resistance.*



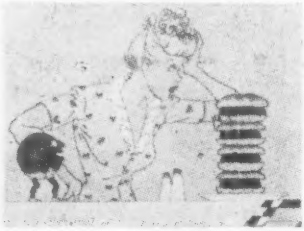
11 *A single quart of milk gives you a good part of each of these food elements you need.*



12 *Milk supplies more than 40% of your daily food requirements, so necessary for good health.*

13 *Calcium — one quart of milk gives you as much as found in twenty helpings of beans.*

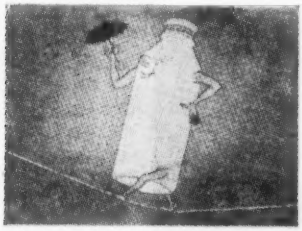
14 *Phosphorus — to get the same amount you would have to eat two pounds of fish.*



15 *Proteins — equivalent to eating enough ground beef to make four hamburgers.*

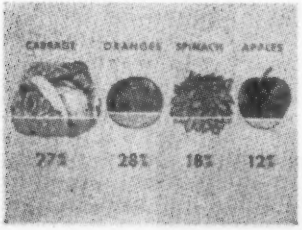
16 *Energy—to get the same amount you would have to eat three-quarters of a cup of sugar.*

17 *For the same amount of vitamins—you would have to eat huge quantities of most foods.*

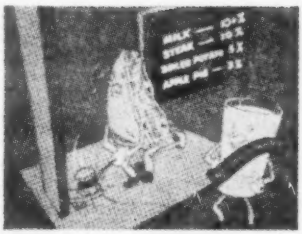


18 *Milk is nature's most perfectly balanced food packed with food elements in the best proportion.*

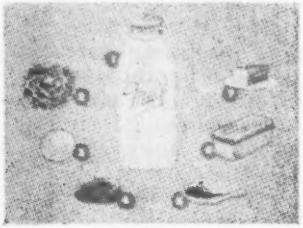
19 *It's usable to the last drop just as it comes from the bottle.*



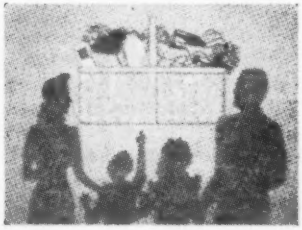
20 *Milk is a perfect no-waste food when compared to waste in most other common foods.*



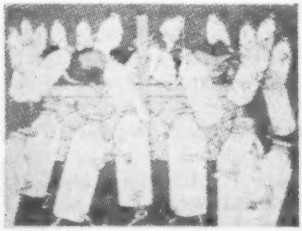
21 *Milk is an all-time champ—takes on all comers at every meal and wins every time.*



22 *Food experts agree that daily diets should contain foods from each of the seven basic groups.*



23 *Milk is on every suggested daily menu. The most perfect food in the market basket.*



24 *Government food experts recommend twenty-four quarts of milk a week for a family of four.*

25 *This provides a quart a day for each child and over a pint a day for each adult.*

26 *These 24 quarts take only 23% of the family food budget yet supply 40% of the food needs.*

27 *With prices of all other foods her family needs still way up, the American housewife knows . . .*

28 *. . . that now and always, Penny for Penny Your Best Food Buy is Milk.*

Mr. CASTLE. I think that covers the ground, Mr. Chairman. I have tried to give you the breakdown of the milk dollar which was probably the real purpose, and there is one thing though that I did not say that I think should be said here.

You gentlemen heard what the Secretary of Agriculture said to our industry. He said this purchase of large quantities of dairy products by the Commodity Credit Corporation is distressing, and then he remarked that if every family in the country would just take one-quarter of a pound of butter more per week, the butter surplus would go out of the window, and into the stomachs. He said to us, "Gentlemen, will you do everything you can to intensify your merchandising and sales efforts because surely the American people can consume more dairy products."

We believe that. We also know, though, that the human stomach is not too stretchable and that we are in competition with a lot of other things that go into that stomach. However, we can sell more. I want to say a word for the American Dairy Association here. Gentlemen, that is an association of farmers. They take a checkoff during 2 months of the year of 4 cents a hundredweight for their milk and 1 cent a hundredweight for butterfat and that goes into a fund, an advertising, merchandising fund. It now amounts to about $2,250,000 a year. They do some very remarkable cooperative advertising.

You have seen it in national magazines. It is all national advertising. It is helping. We cooperate with them, we cheer them on, they are doing a great job. And our industry, day in and day out, is advertising at the local level the advantages of milk and trying to make people see the economy of milk.

Naturally we are trying to sell more, because that is to our benefit. That advertising effort has been going on for at least 25 years or more, day in and day out, in every little town from Maine to southern California. As I showed you, it comes to about eight-tenths of a cent per dollar of sales, the advertising expenditure.

The Secretary was right when he told us that we must intensify our efforts, and there is a big effort being made to educate the American people. The great segment of our population that needs more milk is the people over 40. A survey was made in Chicago a few year ago which showed that about 44 percent of people over 40 didn't drink a drop of milk. There is your great market right there.

We will, speaking for the fluid milk distributing industry, we are going to try to increase that percentage of 50 percent of the crop to 75 percent of the crop.

Mr. ANDRESEN. It may be possible that these people over 40 who didn't drink milk didn't hesitate at all about paying 75 cents for a cocktail instead of 23 cents for six or seven good drinks of milk. Do you have any comment to make on the advantages of store delivery as against home delivery?

Mr. CASTLE. Yes, sir. I would like to comment on that. I would like to comment on the disadvantage of store sales from the viewpoint that we are taking here as to how to increase the use of milk.

The advent of the paper container made it more easily possible for the housewife to go to the store and carry home 2 or 3 quarts of milk, because obviously the paper container weighs less and it is nonreturnable. From the standpoint of distribution, it is obviously more

economical to drive a great big truck up to a store and unload 40 or 50 cases of milk. It costs much less than to take the same quantity of milk and distribute it down the street.

But let us see what the effect on total consumption is. It is perfectly apparent that the housewife is not going out of the house on a day when there is a sick child there, to go to the store to buy anything, let alone milk. She is going to hesitate to go out and take her car on a day when there is sleet and ice and snow on the street. There will be no milk bought that day.

When she goes to the store and gets a great big bag of groceries, she has to think about her own strength and capacity to carry, so perhaps although she knows, through her nutritional education, she needs 4 quarts of milk, she will take 2.

The other thing is that if she does not have the milk in the house she is not going to use it. With the regular delivery of milk and with our driver-salesmen able to convince the housewife because she has two children and pop and mom there that she needs 26 quarts minimum, she is going to have her milk there, and it is going to be used.

But if she depends on the store, she has a tendency, a perfectly human and natural tendency, not to buy as much, and therefore the dairy farmer loses an outlet.

Mr. ANDRESEN. And the regular milk companies, what do they do?

Mr. CASTLE. They lose retail customers but they have the wholesale replacement for it. Of course they have to give the store a lower price so that their total average price is less than if they sold all at retail.

Mr. ANDRESEN. The membership of your organization takes in the dealers of milk here in the Washington area?

Mr. CASTLE. Yes, sir; all over the country, and in Canada. Strangely enough, some in England, and some in Sweden and Denmark, Venezuela. But primarily we are a United States trade association representing the milkmen, fellows who deliver the milk, not the evaporated milk, not the dried milk, not butter and so on, but fluid milk.

Mr. ANDRESEN. I could then file a complaint with you about a lady who called me up some weeks ago. She bought 5 quarts of milk a day, but she objected to having her milk delivered about 11 o'clock. She wanted me to get it delivered for her at 6 o'clock in the morning so she could use it for breakfast. I hope you can take care of that.

Mr. CASTLE. That is one we can't take care of because the old days of getting the milkman up at dawn to deliver milk are gone. They have a rational day. They start moving to the plant at 7 o'clock and their deliveries move out around 8. I could make a suggestion.

You can tell the good lady that milk will keep 10 days in the icebox, and there is no reason why she has to have it delivered the day she wants to use it.

Mr. WILLIAMS. Mr. Chairman?

Mr. ANDRESEN. Mr. Williams.

Mr. WILLIAMS. Have you given study to the savings that could be made by these overlapping deliveries that exist at the present time?

Mr. CASTLE. Yes, sir; there has been a great deal of study given to that. It boils down to a fairly simple consideration. You see various milk trucks moving out through a given district of a city, and nat-

arally you think, Now wouldn't it be much more economical to have one milk truck. There isn't any milk truck that could move through the streets with the load.

Mr. WILLIAMS. I do not mean that, I mean deliveries to the apartment houses and to a community where you have a great many different companies delivering milk in the same apartment building covering the same area.

Mr. CASTLE. That comes down to the question of competition. We believe, in this country, in competition. I know a place right down here on Pennsylvania Avenue where there are two gasoline stations, right back to back.

Mr. WILLIAMS. The prices are all the same. On the milk product that you deliver to the apartment house the price is the same and the quality is the same. It is a preference of service or the individual.

Mr. CASTLE. But that is an American preference, Mr. Congressman.

Mr. WILLIAMS. That is right, but you discussed savings in the transportation of this product. Couldn't there be savings made there?

Mr. CASTLE. They would be very small because the basic economic consideration is the number of quarts on load and the number of quarts per stop. That gets back to your point that there might be more quarts per stop, but there wouldn't be more quarts per door, you see. I believe in competition; I like to see a lot of gasoline stations; I like to go to one place, even though the gasoline is the same. The housewife likes to exercise her choice, too. We would have trust suits clamped down on us in a minute if we tried dividing up the territory.

Mr. WILLIAMS. You don't have competition. The product is the same in quality and the same in price, and it is delivered at about the same time. Where does the competition come in?

Mr. CASTLE. There is a great deal of competition. When you see some people going out of business you have the practical example of that.

Mr. WILLIAMS. Competition is in the quality of service?

Mr. CASTLE. Competition is in quality of service, it is in the quality of the milk, it is in the taste of the milk. And above all it is in the appearance of the sales representative of the company. That is what the housewife likes. She might take an intense dislike to some man who was planted in that district and had the monopoly in that district for delivering the milk, and the price she would pay would not compensate her for that.

I mean the reduced price. I do not know what it would be, but it would be very small, very small. Mr. Kellogg said if you don't mind he would like to remark on that.

Mr. KELLOGG. I am reminded of a visitor that we had in our office 2 or 3 years ago from Norway. Norway and Sweden, as you may know, have gone largely cooperative with monopoly. In this particular city in Norway the man that was in our office was the manager of a cooperative dairy and it was the only supply of milk in the city that his cooperative handled.

But speaking from the standpoint of monoply. His farmers had only one place to ship their milk, and that was to this plant. The consumer had only one place to buy the milk and that was this plant. He came to America to study the great advances in the dairy industry in this country. America leads the world in quality, sanitation, and efficiency of distribution of fluid milk, and he knew it.

After he had been in this country for 6 weeks or 2 months and studied all of our methods, he told me that they needed some competition in his city. He said he would not dare admit it when he gets home, but he could see the difference between a monoply organization in the city and the competition of a group of companies.

You may say that the milk tastes the same and is priced the same and all the rest, but everyone of these milk companies is striving for the best quality and the lowest price, the lowest spread, and takes advantage of every new thing that comes along as fast as it can to get the edge on the other company.

The other one is not dumb and goes after it in the same way. Consequently that pressure of competition always is raising the quality and is always pushing down our price as much as it possibly can. And you are getting the benefits from all of this. You can take your choice on service, the fellow that you like the best, but you are getting a good quality because of that fundamental competition of the management as well as the man on the route.

Mr. ANDRESEN. You have about the same situation here in the milk marketing area. You all pay the same price. That is, all dealers pay the same price. You sell it at the same price, and about the only thing that you can give is service.

Mr. KELLOGG. But we can also work on quality. These individual milk companies have field men who call on their farmers. When the milk comes in a little off flavor, maybe it is getting a little too close to the minimum regulation of the health department, they help the farmers to improve their quality to produce a better supply.

They are all jealous of the quality of the milk that comes in with which they have to work. They are all anxious to get the most efficient system in their plants, and in keeping that quality up. You will find that there are variations in quality. I hear it from housewives all the time.

One of them will say that this company has the best milk, there is another one will say that that one has the best sour cream, or buttermilk, or cottage cheese. They all are striving to find the best quality among the consumers, and the dealers are trying to deliver that best quality. There are ways to do it. All of those things increase the consumption.

There is salesmanship involved in those milk routes, too. The route salesman who sells the most milk increases our consumption, he is increasing his stops, his amount per stop, and he knows if he doesn't sell the consumer the best milk that he has, and his full line, that somebody else may sneak in and get his customer from him.

All that increases his consumption of milk.

Mr. ANDRESEN. Mr. Jones?

Mr. JONES. In Washington, as Mr. Williams said, haven't the dairies kind of split up the territory? In other words, certain streets that one dairy handles, and another handles other streets? The reason I say that, I was talking to a Member of Congress the other day who is from a dairy section, and he said that was his experience. He said he wanted to buy certain milk and he was told he couldn't get it because that territory was allocated to so and so. And down here, that is allocated to somebody else.

That does not exist in Washington?

Mr. KELLOGG. It doesn't in my neighborhood because I know I get from one company, and another company is right next door to me, and a third company goes down my alley. Once in a while when we may not order enough——

Mr. JONES. He certainly left that impression with me and asked me to find out about it. A minute ago, Mr. Castle, in talking of cost, you mentioned flavoring. What do you mean by that?

Mr. CASTLE. Chocolate milk. There are some companies now that are going a little broader on flavoring. For example, they will have raspberry sherbet, or flavored milk of some kind; or coffee milk. Cultures are included in those material costs. You make buttermilk today with cultured milk.

Mr. JONES. You mentioned that you can keep this milk for 10 days in the refrigerator. Is that due to something that has been added to the milk?

Mr. CASTLE. No, sir. It is due to the fact that the bacterial count has become very low on the farms and in the handling under sanitary regulations, such as you have in Washington, the milk just keeps better because it is purer milk. The bacterial count before pasteurization and after pasteurization is negligible. Ten days is conservative. You can keep milk longer than 10 days at 40 degrees.

We say 10 because we don't like to go overboard.

Mr. JONES. Maybe it is my imagination, but it seems to me that sometimes when I get milk it has some hard matter in it. I got the idea perhaps it is because the dairy is putting something in that milk.

Mr. CASTLE. No, sir. Under the sanitary regulations they can't add anything. I know there was some talk about adding vitamin A to skim milk for those people who wanted to have skim milk with vitamins A and D added. Many of the health departments wouldn't even permit that because their law says nothing can be added. If anybody adds anything to milk, anything like you are speaking of, he is violating the law. You know that.

Mr. JONES. You do that with vitamins.

Mr. CASTLE. Yes, vitamin D is permitted. That is all we add. The butterfat content of milk has vitamin A, but there is very little vitamin D in milk. That is one we can't brag about, so we add it and we are permitted to add it.

Mr. JONES. On the general practice of sale of homogenized milk, has there been a tendency to reduce, or does the law permit you to have less butterfat in that milk?

Mr. CASTLE. No, sir. There are minimum butterfat levels in each State and in each city. A milkman cannot go below that level without being prosecuted.

Mr. JONES. Has that been reduced here in Washington, say within the last 5 years?

Mr. CASTLE. To the best of my knowledge it has not.

Mr. JONES. What is the minimum here in Washington now?

Mr. CASTLE. It is 3.5.

Mr. JONES. That is 3.5 percent butterfat in whole milk?

Mr. CASTLE. Yes, sir.

Mr. JONES. Whether homogenized, pasteurized, vitaminized or what not?

Mr. CASTLE. Yes, sir. You will find the average sold is higher than that. I believe it runs here around 3.7.

Mr. ANDRESEN. Mr. Simpson?

Mr. SIMPSON. Is there any shortage of milk as far as your organization knows?

Mr. CASTLE. Shortage of milk? No, sir.

Mr. SIMPSON. Out in Illinois, and in Pennsylvania, Mr. Dague tells me, many dairy farmers are selling their herds because they don't want to work 7 days a week, day and night. Does your organization contact the dairy farmers in any way to know the reason for selling their herds?

Mr. CASTLE. You gave the best reason. The life of a dairy farmer is not terribly attractive compared to that of alternate agricultural opportunities. That would seem to be the tendency, rather the basic reason for some going out. You will recall that in World War II when a lot of the young men from the dairy farms left, the older folks carried on.

I heard testimony in this room which was very, very moving, about older people who had retired and had to go back to the farm to keep things moving. They are dying off and the supply of young dairy farmers you can find, as we found, by looking at the agricultural college enrollments, is alarmingly small. We know, and you know, and everybody here knows that the cows have no idea about the 5-day week. They just will not pay any attention to it. They insist on letting down twice a day, 7 days a week, and the young man, and his wife, as you say, are tied to that farm. They have a tendency to look for some other opportunity.

Mr. SIMPSON. Does your organization find that there is a disposition of a dairy farmer to dispose of his herd and go into other types of farming?

Mr. CASTLE. I think that is a tendency. I believe Mr. Kellogg has more direct information than I have, Mr. Simpson.

Mr. KELLOGG. That seemed to be the tendency up until about last November. Beginning about then our milk production increased, and through a large part of the Midwest they had a very unusual phenomenon of an increase in milk production. They had a flush during the winter months, particularly in late December and January and February.

Mr. SIMPSON. If they are disposing of their herds and enough of them do, it would look like eventually it would end up with a shortage of milk.

Mr. KELLOGG. It would. The analysis of the situation is this: We had a period of very high beef prices, and not as high, relatively, dairy prices, milk prices, to the farmer. A good many farmers up until last fall were switching to beef. When beef prices came down enough to be quite noticeable to the meat producers, a good many of them saw the historic nonfluctuating level, you might say, of milk. It fluctuates some, but not the extremes of beef and pork, and a good many of them came back to the dairy business.

That seems to be the explanation of the increase in milk now. I don't think you will find very many farmers selling their herds at the present time.

Mr. SIMPSON. A good milk cow a year and a half or 2 years ago used to sell for $300 or $350 and now sells for $250; in my area. I have a representative dairy area.

Mr. KELLOGG. Yes, sir. I used to farm in your area.

Mr. SIMPSON. There must be a reason for a good dairy cow, a good producer, going down in price. Evidently the reason is either age, she has become a canner, or else they just want to get rid of their herds and there are too many dairy cows being sold.

Mr. KELLOGG. Remember that the price of a dairy cow that is not purebred is reflected in the beef price as much as in the value as a milk producer.

Mr. SIMPSON. A good Holstein cow in Illinois 4 or 5 years ago would bring $300 or $350.

Mr. KELLOGG. Or more.

Mr. SIMPSON. Today I don't believe that same cow would bring $200 or $225.

Mr. KELLOGG. That is a reflection of meat prices.

Mr. CASTLE. Mr. Simpson, there are two things that will tend to slow down the tendency of dispersing herds. One is that the milk crop is a cash crop and it comes in with regularity.

Mr. SIMPSON. It comes in every month.

Mr. CASTLE. Yes. It is interesting to notice that the cash income for American farmers in 1951 for milk and animals that were sold for milk herds was $6½ billion. The next highest income for the farmer was other cattle and calves, $4,637 million. That means that about a fifth of all cash farm income came from dairy herds.

In other words, $6,590 million out of $33 billion came to the farmer from dairy herds. So that cash income is attractive, even to the young couple that I spoke of.

The other thing is that for more than a 10-cow farm they have a pretty substantial investment. My associate, Mr. Kellogg, represents the very antithesis of the trend that you speak of because he has just started a dairy farm in northwestern South Carolina. I don't know whether he would like to tell you what an investment he has, but he has a very substantial investment. Would you care to refer to that?

Mr. KELLOGG. I bought an old corn and cotton farm down there and made a dairy farm out of it. The farm was purchased for $37 an acre, $10,000 for it, without buildings. My farmer and myself, with our dairy buildings and machinery and about 60 cows and heifers have an investment of about $60,000.

Mr. SIMPSON. You are not complaining about that, are you?

Mr. KELLOGG. It is pretty high.

Mr. ANDRESEN. What do you get for your milk?

Mr. KELLOGG. At the present time $6.37 in South Carolina, per hundred.

Mr. ANDRESEN. Some of our Minnesota farmers ought to go down there. They are getting $3.10.

Mr. SIMPSON. And about $3.65 in Illinois.

Mr. WILLIAMS. Aren't you participating in the blend program down there?

Mr. KELLOGG. No, sir. We do not have a blend.

Mr. SIMPSON. Where is your market?

Mr. KELLOGG. Locally, for fluid milk. Mr. Simpson, a farmer who is in partnership with me came from your district.

Mr. SIMPSON. He probably is a good farmer.

Mr. ANDRESEN. Is that grade A milk?

Mr. KELLOGG. Yes, sir. One thing that got this farmer back into the dairy business, we were together when I lived in Illinois, is the modern labor-saving machinery that has been developed for milking of cows. He can milk, by himself, 30 cows in an hour, which includes the feeding of the grain and washing the udders and stripping and cooling the milk.

Mr. ANDRESEN. Do you run your milk through a pipe line from the cow and into the tank?

Mr. KELLOGG. That is right. We do not have the tank pickup, but it runs over a surface cooler in milk cans.

Mr. ANDRESEN. Do you bottle it?

Mr. KELLOGG. No. The trucker picks it up every day and takes it to the bottling plant.

Mr. SIMPSON. What does a good dairy cow sell for in South Carolina?

Mr. KELLOGG. They run, I would say, about $50 to $100 ahead of Illinois. But there is not as much of a market in South Carolina for cows as there is in Illinois. It is very hard to buy bred heifers there just because it is not a big dairy country. We got all our heifers from Illinois.

Mr. SIMPSON. Your organization does not add anything to milk. Can you take anything out of it?

Mr. KELLOGG. You are asking a question about standardization of milk. In some States you cannot. In some States you can.

Mr. SIMPSON. The reason I am asking the question is that it seems to me if you want to increase the milk consumption, if you could devise some method, legitimately, of telling ladies that you could drink milk and it wouldn't make them fat, you would increase the demand.

Mr. KELLOGG. We tried to tell them that, too. A good many recommendations have gone out on reducing with a quart of milk a day. And it works. I know that it works. The National Dairy Council has worked with many nutritionists to develop that story, and they have circulars on it.

Mr. SIMPSON. Does your organization feel that with a person drinking whole milk it will increase their weight?

Mr. KELLOGG. No. If you study the nutrients in milk, in terms of the amount that you need per day for all purposes, you will find that milk is essentially a low-calorie food. If you were to live on a milk diet, you would have to drink more milk for the purpose of calories than for almost any other item in the milk. There are a few minor things that you wouldn't get enough of, but not much.

Mr. ANDRESEN. Will the gentleman yield?

Mr. SIMPSON. Yes.

(Discussion off the record.)

Mr. SIMPSON. Do you feel that ice cream will increase your weight?

Mr. CASTLE. You have added calories there because you have the sugar. You have a higher butterfat per ounce than you do in milk because the butterfat in ice cream will run around 11 or 12 percent whereas in equivalent milk weight it will run not over 3.8. Then you have the added sugar which we know is a concentrated food.

Mr. SIMPSON. The other day a member from Wisconsin sent to my office two cans of milk, sealed. I took it to where I live and put it in the refrigerator and haven't tasted it yet. He said it is whole milk and will keep indefinitely.

Mr. CASTLE. Where did it come from?

Mr. SIMPSON. Wisconsin.

Mr. JONES. Chicago.

Mr. SIMPSON. It was in a quart can, and on the outside it said "whole milk." Then they had another milk that was I suppose similar to chocolate milkshake. It is supposed to keep indefinitely.

Mr. CASTLE. I have seen one of those from Colorado. Is is in the experimental stage. I don't know what it would cost. I know the machinery for making it is quite expensive. I don't see the necessity of it except for long voyages or things of that sort.

Mr. SIMPSON. It certainly would be fine on a fishing trip or camping trip, or whenever you work where you are away from the facilities of getting daily milk deliveries.

Mr. CASTLE. It is indeed.

Mr. ANDRESEN. You can use whole-milk powder for the same purpose, if you want to go on a camping trip.

Mr. CASTLE. Yes, sir.

Mr. KELLOGG. He could take a lot less water with him.

Mr. ANDRESEN. Are you running into any competition, or are your members running into any competition from what they call filled milk

Mr. CASTLE. It is like a sword of Damocles, Mr. Chairman. The ice-cream industry, of course, is already seriously concerned about it, and although the Federal law prohibits the shipment of filled milk in interstate commerce, it is true that certain States permit the manufacture and sale. Indiana, I believe Illinois now has construed the law so they can do it, and I think Arkansas and Oklahoma and Texas.

Mr. KELLOGG. And Missouri.

Mr. ANDRESEN. What is the filled milk made of?

Mr. CASTLE. It has vegetable fat in lieu of butterfat. They do use some solids, not fat, which is the only redeeming feature of it that I can see. But they lose some of those undefined qualities of butterfat when they substitute soybean oil or cottonseed oil or coconut oil, or whatever it is they use, and it isn't milk, it isn't milk.

Mr. ANDRESEN. If shipments were forbidden in interstate commerce, would that improve the fluid-milk market?

Mr. CASTLE. I think it might affect it but I don't know that it would seriously affect it because I do not believe the American people want a substitute, an imitation product.

Mr. ANDRESEN. We did not think that about butter, either. Still oleo has taken over more than half the market.

Mr. CASTLE. That is true, sir. We, and I now include the honorable gentlemen of Congress, gave the oleomargarine industry about $30 million or $50 million worth of free advertising. I know that 1 man, prominent in the oleomargarine industry, astonished 1 of our people by saying "I hope this thing goes on, I hope this bill doesn't pass, I want to see the debate keep on."

The fluid-milk man looked at him and said "I don't understand you. You fellows want this bill to pass taking the tax off and authorizing yellow margarine, don't you?"

He said "Well, we don't want it for quite a little while because we are getting so much free advertising that our sales are going up."

So the less talk, publicly, about filled milk, from my point of view, the better. I think it is an imitation product, and it has very, very serious economic implications because anything that reduces the dairy industry—and I am talking now about the farm, the dairy farms—is serious for our country in that it tends to reduce the protective mechanism for the topsoil. We here today can pass on very little to our grandchildren and our great grandchildren. A lot of things have taken care of that. But there is one thing that we do need to do, and that is to pass on to them the topsoil of this country, and not have them—second and third generation—be like in China where a famine can go like that because there is no topsoil, no trees, no dairy cows in China.

Mr. ANDRESEN. Do you know of any other branch of agriculture that contributes more to the soil conservation than the dairy farmer?

Mr. CASTLE. No, sir; I do not.

Mr. ANDRESEN. Mr. Simpson?

Mr. SIMPSON. Colonel Castle, I asked you awhile ago if there was a shortage of milk. I believe you said there was not. Is there any surplus?

Mr. CASTLE. Of course we call all the milk that is not used for fluid distribution surplus milk. But that is not correct. In the present milk crop, there definitely must be a surplus because Uncle Sam is buying butter, he is buying dried milk, and he is buying cheese. So there is a surplus to the extent the Commodity Credit Corporation has it in warehouses.

However, it is about 2 percent of the total crop, and as one man from the Department of Agriculture the other day said, and very rightly said, "Are you fellows going to let 2 percent of the crop set the price for the 98 percent?" He also is the one who said that if the American families would buy one-quarter of a pound of butter more per week, Uncle Sam wouldn't have to buy, under the law, any more surplus butter.

Mr. SIMPSON. You do feel then that there is a surplus of milk, based on butter storage?

Mr. CASTLE. Yes, sir.

Mr. SIMPSON. Is there any other use for the milk besides making butter out of it?

Mr. CASTLE. Of course evaporated milk.

Mr. SIMPSON. I know, and ice cream.

Mr. CASTLE. Ice cream, cheese, dried milk. They are all taking substantial amounts. We are increasing the sales of fluid milk steadily about 2 percent a year. When you get up into billions and billions of pounds, 2 percent is an awful lot of pounds. There is enough milk produced in the United States to make a river 3,000 miles long, 40 feet wide, and 3 feet deep.

That gives you some idea of what 119 billion pounds of milk is. I do not know.

Mr. SIMPSON. A few years ago this country sent $190 million worth of grain to India. Now there is a proposal to send wheat to Pakistan. If you have surplus milk and that canned milk that I received last week will keep, why can't we get some canned milk and send it to them, too?

Mr. CASTLE. Milk could be shipped and a lot of it is being shipped in the form of evaporated milk. Powdered milk sales abroad are neg-

ligible now because the United Nations Children's Fund are not buying any powdered milk in this country. They can get powdered milk in New Zealand and I think in Australia, and 1 or 2 other countries, very much cheaper than in the United States.

Mr. ANDRESEN. Are there any other questions?

Mr. Williams?

Mr. WILLIAMS. No questions.

Mr. ANDRESEN. Mr. Dague?

Mr. DAGUE. No questions.

Mr. CASTLE. Mr. Chairman, would it be in order for me to tell the other members of the committee that we have two gentlemen from Japan representing the Japanese dairy industry. Mr. Konno, who is the managing director of the Japan Health Council, and Professor Okada. They have been sent over here and they are spending 3 months in this country going into every phase of our dairy industry, the dairy farms, the processing plants, the distribution systems. They are going to the agricultural colleges, and their objective, as stated to us yesterday, is to find out how the Japanese milk industry can reduce the cost, or reduce the spread between the price paid to the farmer and the consumer, because although they have a plentitude of labor in Japan, their costs of assembling, processing, and distributing, apparently are very high.

It may interest you gentlemen to know that the War Department contracted with an organization in this country to set up milk plants in Japan, in Guam, in two or three other islands. Mr. Konno, what were they?

Mr. KONNO. In the Far East, Guam, Okinawa, and five plants in Japan.

Mr. CASTLE. That organization is shipping powdered milk from here in hermetically sealed cans of 98 percent butterfat. They have devised a method of putting the water back into the milk, just the same kind of water that the cow used, which is a triumph. They have sterilizing machinery, they chlorinate the milk and then take the chlorine out. And they are selling that to the Armed Forces in Japan, Korea, Okinawa, and Guam.

At first they were permitted to sell it to the Japanese civilian population. Mr. Konno, who is Minister of Health, was very much interested in that and wanted to extend the use of the reconstituted powdered milk in Japan, and our War Department ruled that it could not be done, or the State Department, I do not know which. It is one of those mysteries. Maybe you could solve it, Mr. Chairman.

It would be a bigger outlet for our powdered milk and our butterfat.

Mr. ANDRESEN. We are very glad to have these gentlemen with us this morning to listen to the testimony as given to us. Thank you for being present.

Mr. Castle, just one other question. I read in the papers about an experiment in fluid milk consumption in Ohio, where certain dealers or milk companies were selling milk by the gallon. Have you any comment to make on that?

Mr. CASTLE. Yes, sir. That is a very interesting situation. It started, as many things do, with an ingenious merchandiser who wasn't a part of the industry, but he had an idea. This man had a chain of stores and they were Pop and Momma stores, if you know what I mean. Pop and Momma were there all the time, there was no union

labor in the stores, and they were open in these industrial towns late at night.

When the shifts came off the men and women could go to those stores and buy their daily food requirements. They carried in these stores not only milk in half-gallon cans but they carried a full line of groceries and vegetables. The milk was being sold at a price very much lower than the competing milk in the market. There was an economic reason for that.

This man who originated the idea, in the first place he controls the stores by loaning the necessary capital to get the store going. They sign a contract with him to buy his milk, his ice cream, his candy and his bread and they have no return privileges. If they order a hundred loaves of bread and only 75 are sold, they have the bread.

So it goes with the milk, the ice cream, and the candy. In his milk plant, if you call it that, he has milk, ice cream, candy, and bread. So he is utilizing his production space very well. He is getting volume. He has a firm outlet for everything he produces because these stores can't buy from anybody else. They have got to buy their milk, ice cream, candy, and bread from him, and I don't think he supplies the other things.

The half-gallon idea started there. It didn't start there but it focused attention on the half gallon. They had been selling half gallons in many towns before that. He has forced many dealers who didn't believe or didn't have the half gallon in their line to go to the half gallon, with somewhat a reduction in price, and to the gallon, as you say.

You might say, What is to prevent milk dealers starting a lot of stores and doing the same thing? I do not know that there is anything except that the average milk dealer has about all invested that he can invest, and he has stores among his customers and he isn't going to Safeway and say "You have to buy all my milk, all my bread, all my ice cream, and all my candy," because they would tell him where to go, as you know.

It is a very interesting development and something good undoubtedly will come of it because competition is the thing that makes an industry keep on its toes. He introduced an element of competition in those Ohio markets that was really very strenuous for the men who were in the milk business and nothing else.

Mr. ANDRESEN. One other question about the surplus that goes into butter. We have this surplus of butter. Could that be taken care of by increasing the butterfat content of milk, say, to 4 percent?

Mr. CASTLE. Yes; it would take care of some cream, and of course cream is the basis of butter.

Mr. ANDRESEN. How much would that increase the cost of a quart of milk?

Mr. CASTLE. You pay about eight-tenths of a cent per point of butterfat. Say the average in most towns is 3.7. We recently took a census on that and that is the average in the United States, 3.7. To increase it 3 points, the outright cost to the dealer would be 24 cents. I don't know what the final figure is. Maybe Mr. Kellogg who carries a slide rule, could figure that out for me. It would increase the cost slightly.

Mr. ANDRESEN. About a half cent a quart?

Mr. CASTLE. I would think so. But you run into an obstacle there. The housewife is not interested in fat any more in milk. She is not interested in high butterfat. Three years ago we saw the handwriting on the wall. I don't know whether you read it or not. But a survey was made in two cities in northern New York by the Department of Commerce of the State of New York.

They asked the housewife what are the things that you look for when you select a certain brand of milk? There were all sorts of things. There are some 20 components. They weighted those and to our astonishment, we found that butterfat was just way down the line. It didn't amount to anything. She wasn't interested.

Mr. ANDRESEN. We thank you very much, Mr. Castle, you and your associate, for the testimony that you have given us. If you will leave the charts with us they will be placed in the record.

We have one more witness, Mr. R. B. Bush, manager of the Lucerne Milk Co.

Mr. Bush, will you step forward?

STATEMENT OF R. B. BUSH, MANAGER OF LUCERNE MILK CO., ACCOMPANIED BY ARTHUR HANSON, ATTORNEY FOR LUCERNE MILK CO.

Mr. HANSON. Mr. Chairman, this is Mr. Bush. I am Arthur Hanson, attorney for the company. Mr. Bush is our company manager of our 11 plants throughout the United States and Canada. He has a prepared statement. I am perfectly willing to read that statement. It will take about 30 minutes to read it.

Mr. ANDRESEN. I think due to the shortness of time that we would prefer to have that go in the record and let Mr. Bush talk to us generally about what you have in mind.

(The document referred to is as follows:)

STATEMENT BY SAFEWAY STORES, INC., ON THE EFFICIENCY OF STORE DISTRIBUTION OF MILK

Lucerne Milk Co., a division of Safeway Stores, has milk processing plants in 11 metropolitan areas of the United States and Canada. All of our packaged milk products are sold through Safeway Stores.

There are always those who resist change; who like the status quo, particularly when it is profitable even in the face of inefficiency.

There was a time when dairy farmers distributed milk door to door from a 3-gallon container. The distributor measured out the housewife's purchase, poured the milk into a wide dish so she could skim the cream for the morning coffee. Milk was not the popular beverage in those days that it is now, and much of the reason may have been because of this inefficient method of distribution.

The controversy over pasteurizing milk became so heated that doctors took sides. Some doctors insisted upon raw milk for baby's diet. Their prescription for the handling of this raw milk generally included scalding—inefficient home pasteurization. Other physicians asked for scientific control of bacteria growth through pasteurization. When pasteurization was accepted and was done by the processor-distributor, and when the can-to-pan door delivery was succeeded by modern sanitary processing plants, we had greater efficiency in the milk industry.

We recite these two instances to illustrate that new efficiencies in the distribution of milk is not an overnight process, but comes about when inefficiency becomes so costly it must yield for newer, more economical methods.

Milk is a basic food for both children and adults. Nutritionists have set up certain minimum standards of consumption for good health. They say that a

child should drink 1 quart of milk per day and that adults require 1 pint daily. Too few people enjoy these minimum standards. This underconsumption of milk, in many instances, has come from the failure of milk distributors to develop efficiencies that will result in lower prices—prices which will encourage more people to drink more milk. This is shown by the fact that underconsumption of milk is particularly acute among lower income groups. In 1948, the United States Bureau of Labor Statistics showed that lower income groups drink only about one-half as much milk per capita as people with higher incomes.

Some years ago, Safeway, convinced that unrealistic prices were discouraging the consumption and sale of milk, did a research job that indicated, by and large, that milk distributors were more interested in preserving their profits than in discovering how to improve profits through new methods of processing, distribution, and sale of milk which would reduce operating costs and enable consumers to buy more milk for less money.

We found generally that the resale price-fixing provisions in State milk control laws were protecting inefficient distributors; that the laws did not encourage the development of new methods for economic distribution and often they failed to recognize existing methods of distribution which entitled consumers to lower prices. Most of these milk control laws came into being in the depression 1930's. Dairy farmers took a bad beating at the beginning of the depression when unsettled economic conditions brought about milk wars. Because dairy farmers had no protection they generally ended up by standing the losses that these price wars produced. It became evident that it was in the public interest to attempt to stabilize milk prices at the producer level. So, many States, and the Federal Government, through the establishment of milk marketing areas, set up machinery to control milk prices at the producer level. These laws setting a price for producers' milk helped to guarantee the production and the maintenance of an adequate supply of milk so vital to the public health and welfare.

In some States the success of controlled prices for producers excited the envy of distributors. They sought protection through State laws which would guarantee their profits by fixing retail resale prices high enough to maintain profitable wholesale margins. As was inevitable, this profit protection for distributors reduced competition, protected inefficiency, and tended to create milk distributing monopolies in many areas. The record shows that this price fixing discourages economies in processing, packaging, and retailing of milk. The price to the consumer is higher than necessary; consumption is reduced; and the producers' market restricted.

Safeway policies

It is important that this committee know something about how Safeway operates. We have set up definite policies—which may be amended or corrected as conditions change—that are the rules under which we conduct our business. The purchase and sale of milk, an important item in food stores, is governed by the following policies:

1. *Increase the consumption of milk.*—Milk must compete with other foods for its share of the consumer dollar. Therefore, distribution of milk at the lowest possible retail price is necessary to promote increased consumption.

2. *Producers must have fair prices.*—Safeway knows that producers must have fair prices to stay in business and that fair prices must be constant.

Thus, to encourage and assure an adequate supply of milk, Safeway is in favor of the adoption of regulations which establish minimum prices for the milk of producers.

3. *Retail price fixing.*—Safeway believes that the producer and the consumer are harmed by milk regulations which fix prices of milk beyond the producer level. Price fixing beyond the producer is not necessary to protect the producer if there are proper regulations setting the producer price.

4. *Cash-and-carry milk prices.*—Safeway believes that milk should be sold to consumers at the lowest possible price based upon reasonable costs of production and distribution.

When consumers pay cash for milk and carry it home from the store, they save the cost of home delivery and credit. Safeway believes the consumer is entitled to that saving.

Safeway has no quarrel with the people who deliver milk to doorsteps on credit—the more expensive way. They perform a convenient service for those who can afford it.

Lucerne's operations

Safeway found that it was impossible in many areas to handle milk under these policies. To pay producers a fair price and to give the consumers the benefits of efficient distribution we had no other course but to enter into the processing, wholesaling, and retailing of our own milk products. This was the only way we could develop the economy, quality, and service in the sale of milk we felt was possible and desirable. So, Lucerne Milk Co. was set up as a division of Safeway to take on this job.

As you know, Safeway has long sold food to consumers cash and carry. We were familiar with the savings in this type of retailing. People who buy milk for cash and perform part of the delivery function by carrying their milk home earn a very considerable saving. While few States with laws fixing milk prices permitted an adequate allowance for this consumer saving, we felt confident that the economies of cash-and-carry sale of milk were so obvious that store prices would be granted to reflect these savings when we presented a record of actual costs to State price-fixing bodies. We now know how wrong we were in expecting some States to allow a differential which represents the actual economies in cash-and-carry store distribution of milk.

In addition, Safeway was certain that other economies could be introduced into the distribution of milk through stores. We have never felt that last year's methods were the best. We know that new methods for greater efficiency and economy are always possible. It is our duty to reduce operating costs and allow the public to buy food at lower prices.

We want to make a record of some of the economies we were able to develop or discover in our operations of our milk plants. They will show how Lucerne developed cost-saving methods that benefited both producers and consumers.

I. BULK MILK TRANSPORTATION

In April of 1942 Lucerne started the first tank truck pickup of milk from the farms. This consisted of 14 farm tanks ranging from 300 to 1,000 gallons, 8 installed in Sonoma County, north of San Francisco, and 6 in Santa Clara and Alameda Counties, south of San Francisco all in California. Each of these groups made a truckload of about 3,500 gallons in the flush production. One truck made 2 runs per each 24 hours.

Much has appeared in trade journals and publications recently describing this method of milk hauling.

A summary of the advantages of this method written in 1944 by the plant manager of our Oakland plant includes the following:

"DECEMBER 7, 1944.

"SUMMARY OF ADVANTAGES OF FARM TANKS

"1. Producer can see his milk measured and sampled, thus creating confidence.

"2. Eliminates milk losses from adhesion to cans and lids and spillage in handling. Estimated at least 1 pound per can.

"3. Reduces milkhouse labor on farm.

"4. Reduces hauling costs.

"5. Improves quality of milk.

"The milk is exposed to 5 times as much metal surface in 300 milk cans as it is in a 3,000-gallon tank truck and the danger of contamination from open seams in cans is eliminated.

"Milk is properly cooled immediately after milking and does not warm up before it reaches the processing plant. Result, lower bacteria counts and better flavor.

"6. Reduces processing plant receiving labor and cooling expense.

"We feel that this new method of handling milk is basically sound and inasmuch as it saves money both for the producer and for the distributor, we predict that it will be adopted eventually by the entire industry."

This prediction has certainly come true. Our California grade A plants are now 100 percent tank truck pickup, as is most all of the grade A milk in that State. It has spread to nearly all parts of the country and continues to grow.

Savings for producer and plant

Range of savings for producer using farm tank pickup.—Savings in labor ranged from one-half hour a day for smaller producers shipping 35 to 240

gallons a day up to 48 hours a week for a 900-gallon-a-day shipper who had eliminated 1 man by putting in farm tanks. A medium-sized producer shipping 400 gallons a day to our Washington, D. C., plant estimates he saves 1¾ hours a day in labor.

The value of farm labor varies greatly all over the country, but if we use an average cost of $1.50 an hour, labor savings will range from 0.06½ cents per hundredweight for small shippers to 0.15 cents per hundredweight for a larger shipper who eliminates a milker.

Savings in elimination of product losses: The range of estimates by our producers was from one-half to 1 percent to 1½ percent of volume handled. Using one-half of 1 percent loss and a producer price of $6 a hundredweight for 3.8 percent milk, this is equal to savings of 0.032 per hundredweight. One large California shipper estimates savings of $1,800 a year from elimination of losses.

Total producer savings exclusive of hauling range from 10 to 18 cents per hundredweight

Plant savings.—We have figured that the savings in refrigeration and labor gained through receiving precooled milk at the plant is equal to 0.012 per hundredweight. The Lost Angeles plant, our largest, has reduced their compressor load by approximately 10 tons of refrigeration a day.

In the plant receiving department, we save an average of 0.058 per hundredweight at all plants. In addition to the reduction in labor, we have reduced daily steam requirements by one-third.

The plants have saved three-fourths cent per hundredweight in eliminating the purchase and upkeep of 10-gallon cans.

Plant savings not counting hauling are 8 cents per hundredweight

Hauling savings go to the producer or plant, depending on the method of buying milk. They range from 4 cents to 8 cents per hundredweight.

Total savings to both plant and producer range from 22 cents to 34 cents per hundredweight

What does a 25 cents per hundredweight saving mean to the grade A milk industry in this country? Over $100 million per year.

Every other day pickup makes this system workable on medium small dairies. It has been tried out and is successful in Washington and Oregon.

II. PERMANENT PIPELINES

In 1945, we began experiments with the use of continuous welded stainless steel pipelines that are left in place for cleaning. The committee knows, we are sure, that it has long been the habit to have pipelines which are disassembled upon use each night, cleaned and then reassembled. In one of our plants the main group of permanent lines consists of about 1,600 pieces of 1½- and 2-inch pipes. Under the old system each of the 1,600 pieces of this pipeline was taken down and cleaned every night. It took 24 man-hours to break down, clean and handle the assembled lines under the old setup. The entire cleaning operation is now done with 8 man-hours.

The permanent cleaned-in-place pipelines result in a saving from product losses. Under the old system it wasn't unusual to observe milk or cream leaking from assembled lines because of a faulty gasket or a loose nut. We don't have that trouble now.

There is a marked saving in depreciation and maintenance costs of the permanent lines and there is no question that the elimination of the numerous unions in the old assembled lines results in a better appearance. These permanent cleaned-in-place pipelines not only cut costs, but they do a better job. The entire line is sterilized uniformly. In the old assembled lines there was a variable amount of attention given individual pieces of pipe.

Sterilization of the cleaned-in-place pipelines eliminates the possibility of recontamination after sterilization.

From our experience, we conclude that the permanent lines can be kept more sterile than assembled lines. We have had some plants use permanent lines in part of the operation and assembled lines in another part. Regular and detailed records of bacteria counts show lower averages in the permanent lines.

III. LARGE VOLUME DELIVERIES

One of the obvious savings in a milk distributing operation such as ours is that which comes from large volume trucking from plant to stores. We have

no split stops. Our delivery men just deliver a predetermined order to the back room of each store. He does not have to stock the milk box, write up the order, make collections, talk to the manager, or do the many things some drivers have to do to keep the groceryman happy. He is just a delivery man—not a salesman.

The result is that the average size load going out of our United States plants is 267 cases or 6,408 quarts per day. These are actual delivery routes to stores not relays to distributing points. Peak day loads will run as high as 9,552 quarts. The average daily delivery per store is approximately 400 quarts, and on peak days many stores take 2,400 quarts. The savings from this type of delivery operation are obvious.

IV. SIMPLIFICATION OF ITEMS

We endeavor to keep our line of products as simple as possible and stock the fewest items necessary. At our Washington, D. C., plant, for example, our line of products consists of:

Quarts:
- Regular homogenized milk
- Vitamin D homogenized milk
- Buttermilk
- Chocolate drink
- Skimmed milk

Pints:
- Table cream
- Half and half

Half pints:
- Table cream
- Whipping cream
- Sour cream

12 ounces:
- Cottage cheese, large curd
- Cottage cheese, small curd

Twelve items—this simplifies not only the plant operation but also the store stocking problem.

V. GALLONS PER MAN-HOUR

In 1943, Dr. Bartlett, professor of agriculture economics at the University of Illinois, made a study of our Washington, D. C., plant and reported 1.46 man-hours per 100 gallons handled or 68.3 gallons per man-hour. At that time this was considered a pretty good figure; in fact, our plant was one of the most efficient studied.

Since then, through the use and exercise of the economies just mentioned—bulk transportation, permanent pipelines, large-volume deliveries and simplification of items plus faster pasteurization and filling operation—we have been able to increase our gallons per man-hour to 80 at Washington. A 17 percent increase in efficiency. In some of our plants that were less efficient in 1945 the increased efficiency has been much more pronounced.

Most every distributor has some different method of computing gallons per man-hour. We simplify this by taking the total equivalent gallons of all products produced and dividing by the total man-hours for the corresponding period. The total hours includes everyone on the plant payroll, including the manager, office force, supervisory help, engineers, and maintenance men. It does not include the fieldman who is charged to milk cost, nor the delivery men who are charged to delivery.

VI. BAD TRADE PRACTICES

We also save from elimination of the bad trade practices which seem to have become fixtures in the distribution of milk. Some of these bad trade practices are:

(1) Secret rebates that are used in many and varying ways to attract customers.

(2) The practice of making loans or discounts to stores on refrigeration equipment.

(3) The credit losses which come from carrying accounts.

VII. QUALITY CONTROL

Another very important advantage gained from our type of operation is complete control of quality all the way from the producer to consumer by close supervision of processing, distributing and retailing through controlled outlets.

Quality begins on the dairy farm. We have a quality bonus program encouraging the production of high quality milk in effect at all of our plants. We set standards well above the average quality of the market, but not so high as to make it impossible to reach. If a producer meets these quality standards, he is paid a bonus over and above the regular price. Last year these payments amounted to over $100,000, or approximately 4 cents per hundredweight.

With high quality raw products, correct processing, and proper refrigeration all the way including the display cabinet in the store, we are able to put a product of the highest quality into our customers' hands.

In addition to the quality control maintained at each plant, we have set up a central quality control laboratory. I believe we are the only distributor of milk that has such a laboratory for analyzing samples from all parts of the country in one place. The samples are frozen at the plant in dry ice then packed in dry ice and shipped by air express to the control laboratory. This enables us to closely compare our products in all areas and to maintain uniform standards of quality.

These are just a few of our cost reducing efficiencies. They are available to any other plant. They should enable a reasonably efficient milk distributor to sell milk to grocery stores so that the stores in turn could sell it to consumers at a lower price.

In some areas the efficiency of store distribution has been recognized. For example, here in Washington, D. C. the average selling price for milk out of a Safeway retail store is 21 cents, against 24 cents for the more expensive home delivery. Of this 21 cents, the producer receives 15.09 cents or 72 percent of the consumer's dollar.

In San Francisco where prices are set by State control there is only a 1 cent store differential. The selling price at the store is 21½ cents and 22½ cents for home delivery. The producer receives 11.74 cents for a quart of 3.8 percent milk, which is only 55 percent of the consumer's dollar.

Dr. Bartlett, who is an outstanding authority on the milk industry, reports that studies at the University of Illinois indicate that the introduction of a sizable store differential tends to increase per capita sales in both large and small cities.

It is obvious that the producer is benefited by increased consumption that comes from proper store differentials, and Safeway would like to restate here that its policies governing the operation of its milk business favors the establishment of fair prices for milk producers. Our paring knife of economy is aimed at the market spread. By that we mean the difference in the price paid to the producer and the selling price to the consumer. Our experience has been that in States where the resale price of milk is controlled by a State milk board or other authority administering the State laws that wholesale margins—the spread between a distributor's costs and the wholesale price he charges stores—are excessive and the "sacred cow" of the industry.

The evidence in Lucerne's home city of Oakland, Calif., is a striking illustration of how the wholesale margin or plant profit has gotten out of hand and unnecessarily increased the price of milk. In March of this year the retail price of milk out of Oakland stores was 22 cents a quart. The wholesale price was 19½ cents a quart, giving the grocer 2½ cents a quart margin for selling milk quart-by-quart. All of these prices are minimum prices fixed by the bureau of milk control which administers the California milk law and sets resale prices. Lucerne presented evidence that its costs resulted in a net plant profit of 3.10 cents a quart, and asked for a reduction of 2 cents a quart in the wholesale price so that all grocers could reduce the consumer price a like amount. The milk price fixers said "No."

Let's stop and review these facts. The State bureau of milk control was forcing Lucerne, a reasonably efficient milk plant, to take a plant profit on milk which it handled in case lots that was larger than the gross spread (not profit) that the retail grocer got for handling milk quart by quart.

The wholesale margin in California has become so unreasonably high that other wholesale milk distributors, one of them the largest milk cooperative in the West, have joined Safeway in seeking a greater store differential which will more truly represent the lower costs of store distribution.

What we have here reported at some length illustrates some of the problems in the distribution of milk—problems which have forced Safeway and many other independent and chain retail grocery stores to go into the business of processing and distributing their own packaged milk.

The question may come to your mind and rightly so:

Does Safeway's method of distributing sell any more milk—more than if Safeway bought it from regular milk distributors?

The answer is yes. Lucerne supplies milk on an exclusive basis to about two-thirds of the 2,058 retail outlets of Safeway. These stores served by Lucerne sell 40 percent more milk than the stores not served by Lucerne. We feel that this has justified our entrance into the milk distribution field. Needless to say, these increased sales have improved the producers' market in these areas.

One of the most important values of our milk operation is that it gives us knowledge of the cost at all stages of marketing. This is a restraint upon those who would establish unnecessarily high prices for milk and upon unwarranted milk-control measures. Our operation deters the formation of legalized monopolies and protects the entire industry from the high costs that accompany such monopolies. Both producers and consumers know that increased costs of distribution are a serious threat to proper consumption of milk. All the evidence we have developed in the operation of our milk plants convinces us that the solution to a better and larger milk market lies in finding better and less costly ways to distribute milk.

Mr. BUSH. Mr. Chairman and members of the committee: As Mr. Hanson has said, I am going to touch on a subject, one reason why we think that the price of milk hasn't been reduced in some locations, some localities. And that is the artificial price control by certain States.

As Mr. Hanson said, we operate nine fluid milk plants throughout the United States and Canada, and serve exclusively to Safeway stores. In fact, Lucerne Milk Co. is a wholly owned subsidiary of Safeway. Sometime ago Safeway made a survey, a study, and we felt that one of the things that was holding down the consumption of milk was the artificial pricing.

Could I read a part of this statement?

Mr. ANDRESEN. Yes.

Mr. BUSH. In making this study we found generally that the resale price fixing provisions in State milk control laws were protecting inefficient distributors; that the laws did not encourage the development of new methods for economic distribution and often they failed to recognize existing methods of distribution which entitled consumers to lower prices. Most of these milk control laws came into being in the depression 1930's. Dairy farmers took a bad beating at the beginning of the depression when unsettled economic conditions brought about milk wars. Because dairy farmers had no protection they generally ended up by standing the losses that these price wars produced.

It became evident that it was in the public interest to attempt to stabilize milk prices at the producer level. So, many States, and the Federal Government, through the establishment of milk marketing areas, set up machinery to control milk prices at the producer level. These laws setting a price for producers' milk helped to guarantee the production and the maintenance of an adequate supply of milk so vital to the public health and welfare.

In some States the success of controlled prices for producers excited the envy of distributors. They sought protection through State laws which would guarantee their profits by fixing retail resale prices high enough to maintain profitable wholesale margins. As was inevitable, this profit protection for distributors reduced competition, protected inefficiency and tended to create milk distributing monopolies in many

areas. The record shows that this price fixing discourages economies in processing, packaging and retailing of milk. The price to the consumer is higher than necessary; consumption is reduced; and the producers' market restricted.

It is important that this committee know something about how Safeway operates. We have set up definite policies—which may be amended or corrected as conditions change—that are the rules under which we conduct our business. The purchase and sale of milk, an important item in food stores, is governed by the following policies:

1. Increase the consumption of milk: Milk must compete with other foods for its share of the consumer dollar. Therefore, distribution of milk at the lowest possible retal price is necessary to promote increased consumption.

2. Producers must have fair prices: Safeway knows that producers must have fair prices to stay in business and that fair prices must be constant.

Thus, to encourage and assure an adequate supply of milk, Safeway is in favor of the adoption of regulations which establish minimum prices for the milk of producers.

3. Retail price fixing: Safeway believes that the producer and the consumer are harmed by milk regulations which fix prices of milk beyond the producer level. Price fixing beyond the producer is not necessary to protect the producer if there are proper regulations seting the producer price.

4. Cash-and-carry milk prices: Safeway believes that milk should be sold to consumers at the lowest possible price based upon reasonable costs of production and distribution. When consumers pay cash for milk and carry it home from the store, they save the cost of home delivery and credit. Safeway believes the consumer is entitled to that saving. Safeway has no quarrel with the people who deliver milk to doorsteps on credit—the more expensive way. They perform a convenient service for those who can afford it.

Safeway found that it was impossible in many areas to handle milk under these policies. To pay producers a fair price and to give the consumers the benefits of efficient distribution we had no other course but to enter into the processing, wholesaling, and retailing of our own milk products. This was the only way we could develop the economy, quality, and service in the sale of milk we felt was possible and desirable. So, Lucerne Milk Co. was set up as a division of Safeway to take on this job.

As you know, Safeway has long sold food to consumers cash-and-carry. We were familiar with the savings in this type of retailing. People who buy milk for cash and perform part of the delivery function by carrying their milk home earn a very considerable saving. While few States which laws fixing milk prices permitted an adequate allowance for this consumer saving, we felt confident that the economies of cash-and-carry sale of milk were so obvious that store prices would be granted to reflect these savings when we presented a record of actual costs to State price-fixing bodies. We now know how wrong we were in expecting some States to allow a differential which represents the actual economies in cash-and-carry store distribution of milk.

In addition, Safeway was certain that other economies could be introduced into the distribution of milk through stores. We have

never felt that last year's methods were the best. We know that new methods for greater efficiency and economy are always possible. It is our duty to reduce operating costs and allow the public to buy food at lower prices.

We want to make a record of some of the economies we were able to develop or discover in our operations of our milk plants. They will show how Lucerne developed cost-saving methods that benefited both producers and consumers.

In order to save time I will not read parts of this. One of the first things that we did to reduce costs of operation was already referred to by Colonel Castle, and that is the bulk transportation of milk. We happened to be the originators of that method.

We started back in 1942 and it has been quite a struggle to get some of the health authorities in some locations to allow us to put it into effect. Fortunately it is in effect in Washington, it is being adopted and eventually it will be expanded to the entire market. Other States, they still won't let us put that method into effect.

The advantages of that method are many: The producer can see his milk measured and sampled, thus creating confidence. It eliminates milk losses from adhesion to cans and lids and spillage in handling, estimated at least 1 pound per can. It reduces milk house labor on the farm. It reduces hauling costs. It improves the quality of the milk.

A brief summary of the savings not only to the farmer but to the distributor and the hauler from our studies show that the producer, in figuring the savings in labor and the savings in loss of milk, it means from 10 to 18 cents per hundredweight for him. The plant, by eliminating the receiving room, eliminating the necessity of cooling the milk—milk is always cold when it comes in—will run about 8 cents. Hauling varies. It will average 4 to 6 cents. We figure the total savings will run from 22 to 34 cents per hundredweight.

Take an average of 25 cents and that means over a hundred million dollars a year to the industry. One other saving we put into our plants is the design of the piping equipment that carries the milk from one piece of equipment to the other. In the old days that was all taken down every night and now we are designing those lines so they can be cleaned in place.

In that way we save over half of our cleaning costs. Our experience has shown that these lines handled that way are even more sanitary than the lines that are taken down, sterilized and put back up. They are sterilized in position and the minute they are sterilized they are ready for use. We have run tests on a plant that had them and a plant that didn't have them and it showed that the plans that have that type of lines are cleaner and have lower bacteria counts than the lines that are taken down and cleaned in the ordinary manner.

I think the most obvious savings in our method of operation is large volume deliveries. I think that was perhaps touched on by the previous speaker. Our delivery men are not salesmen. They just deliver a predetermined amount of milk to the store, it is placed in the back room. They don't have to go in and talk to the store manager and service his box and take the next day's order and make a collection and do the many things that the ordinary milk drivers have to do.

By doing that I think Mr. Castle said that the average retail load was some 450 units. Ours, here in Washington, will run close to 10,000 units on 1 truck. Naturally there is quite a saving in that type of delivery.

Another thing that we do to simplify our operations and reduce our costs is to simplify the number of items that we handle in the plant. We will handle a total of just 12 items in this plant. By that I mean quarts of homogenized milk, et cetera. This ordinary wholesale plant, I don't know what they handle. I talked to a man in San Francisco and asked him how many he had and he said he had 50. That not only simplified the plant but of course simplifies the operation of the store.

The result of all of these various things is an increased efficiency in the plant. In 1943, Dr. Bartlett, professor of agricultural economics at the University of Illinois, made a study of our plant in Washington and found it to be one of the most efficient plants that was found in the study. Since then our efficiency has increased even more so that now we are up to 80 gallons handled per man-hour.

Another thing we have eliminated are so-called bad trade practices. There are no secret rebates used in many and varying ways to attract customers. Also the practicing of making loans and discounts to stores on refrigeration equipment. I am not saying that that is done in any particular market, but it has been done in some markets in the past.

As to credit losses, another important advantage gained in our type of operation is quality control. We control the quality all the way from the producer right straight through to our milk box. We have a quality program to encourage the production of quality milk on the farm.

In other words, we pay the average going price in any market plus a bonus for quality. Last year that bonus ran over a hundred thousand dollars. These are just a few of our cost-saving efficiencies. They are available to any other plant and should enable a reasonably efficient milk distributor to sell milk to grocery stores so that that milk in turn could be sold to consumers at a lower price.

In some areas the efficiency of store distribution has been recognized. For example, right here in your own city of Washington the average selling price of milk out of a Safeway retail store is 21 cents against 24 for the more expensive home delivery. Of this 21 cents the producer receives 15.09 cents per quart, or 72 percent of the consumer's dollar.

In other words, the spread between what the producer gets for the milk and what the consumer pays for it out of our stores, the difference between 21 cents and 15.09, is only 5.91 cents per quart. Let's compare that with an area where we have price control. I am going to refer to San Francisco, where prices are set by the State milk control board. There the price is only 1 cent differential between the home delivered price and the store price—21½—there the producer gets only 55 percent of the consumer's dollar.

Dr. Bartlett, I will refer to him again, has made a lot of studies on the milk industry and he reports that his studies made at the University of Illinois indicate that the introduction of this sizable store differential tends to increase per capita sales in both large and

small cities. It is obvious that the producer is benefited by increased consumption that comes from proper store differentials, and Safeway would like to restate here that its policies governing the operation of its milk business favors the establishment of fair prices for milk producers. Our paring knife of economy is aimed at the market spread. By that we mean the difference in the price paid to the producer and the selling price to the consumer. I might state that I had said that in Washington the spread here was 5.9 cents. In San Francisco, where we have price control, by State, it is 9.7 cents between what the producer gets for his milk and what we sell it for out of the store.

Our experience has been that in States where the resale price of milk is controlled by a State law or other authorities administering the State laws, that wholesale margins—the spread between the distributor's costs and the wholesale price he charges—are excessive and the sacred cow of the industry.

Take the evidence in Lucerne's home city of Oakland, Calif., a striking illustration of how the wholesale margin or plant profit has gotten out of hand and unnecessarily increased the price of milk. In March of this year the retail price of milk out of Oakland stores was 22 cents a quart, set by the milk-control board of the State. The wholesale price was 19½ cents a quart, giving the grocer 2½ cents a quart margin for selling milk quart by quart. All of these prices are minimum prices fixed by the bureau of milk control which administers the California milk law and sets resale prices. Lucerne presented evidence that its costs resulted in a net plant profit of 3.10 cents a quart, and asked for a reduction of 2 cents a quart in the wholesale price so that all grocers could reduce the consumer price a like amount. The milk price fixers said "No."

What they did do at that time, now that prices are going down over most of the country, they reduced the price to the producer three-quarters of a cent. They reduced the resale price only a half cent. Instead of decreasing the margin as we asked them to, they increased it another quarter of a cent.

Let's stop and review these facts. The State bureau of milk control was forcing Lucerne, a reasonably efficient milk plant, to take a plant profit on milk which it handled in case lots that was larger than the gross spread—not profit—that the retail grocer got for handling milk quart by quart.

The wholesale margin in California has become so unreasonably high that other wholesale milk distributors, one of them the largest milk cooperative in the West, have joined Safeway in seeking a greater store differential which will more truly represent the lower costs of store distribution.

What we have here reported at some length illustrates some of the problems in the distribution of milk—problems which have forced Safeway and many other independent and chain retail grocery stores to go into the business of processing and distributing their own packaged milk.

The question may come to your mind and rightly so: Does Safeway's method of distributing sell any more milk—more than if Safeway bought it from regular milk distributors?

The answer is "Yes." Lucerne supplies milk on an exclusive basis to about two-thirds of the 2,058 retail outlets of Safeway. These

stores served by Lucerne sell 40 percent more milk than the stores not served by Lucerne. We feel that this has justified our entrance into the milk-distribution field. Needless to say, these increased sales have improved the producers' market in these areas.

One of the most important values of our milk operation is that it gives us knowledge of the cost at all stages of marketing. This is a restraint upon those who would establish unnecessarily high prices for milk and upon unwarranted milk-control measures. Our operation deters the formation of legalized monopolies and protects the entire industry from the high costs that accompany such monopolies. Both producers and consumers know that increased costs of distribution are a serious threat to proper consumption of milk. All the evidence we have developed in the operation of our milk plants convinces us that the solution to a better and larger milk market lies in finding better and less costly ways to distribute milk.

One of the things I haven't mentioned here in distributing milk is that we have been one of the pioneers in the introduction of paper containers for milk distribution through the stores. As I remember the figures, that was started about 1940. There was only 3.8 percent of the milk distributed in the country packed in paper. Now that figure is up to nearly 40 percent. Practically all milk going through stores is delivered in paper containers. In 1940 it was 4.8 percent, in 1952, 38.5 percent of the milk. That is national.

One other thing, on the butterfat content of milk: I can't agree that the housewife isn't interested in butterfat and milk. She may think she isn't, but there is so much difference in flavor of milk, say, the 3.5- or 4-percent milk, that they like the better milk but don't know why. We had an example. We standardized all of our milk in all of our plants at 3.8 with the exception of Washington—everything has to be a little better here—we standardized it at 4 percent. We had an instance at one time in a California market where we discontinued our milk in that market. They had been used to having 3.8.

We picked one of the national distributors, what we thought was the best milk in the country. The only difference between the milk was that theirs was 3.5 and ours was 3.8. We had more complaints on milk than any other thing in the grocery store for a period of about 6 months, until we changed back. It certainly will increase and take up some of the slack or surplus of fat that we are talking about. I estimate that an increase from 3.6 to 4 percent, will run about—if milk were increased from 3.6 to 4 percent in the national market would consume 18 million pounds of fat a year.

Mr. ANDRESEN. Mr. Williams?

Mr. WILLIAMS. How do you control your volume of production when you buy most of this milk from the producers and run it through your own plant. Is that right?

Mr. BUSH. Yes, sir.

Mr. WILLIAMS. How do you control your volume of production over a year's period of time?

Mr. BUSH. Just exactly as any other milk company would. We contract with a certain number of producers for a certain amount of milk. There are times when their production is greater than what we can use and that has to be diverted into surplus channels just like any other plant.

Mr. WILLIAMS. What do you do with the surplus?

Mr. BUSH. At times that surplus goes into evaporated milk, ice cream. I think some of it goes into butter, but very little at the present time.

Mr. WILLIAMS. Do you use a blend program in paying the producer?

Mr. BUSH. We pay exactly the same as any other milk company on a blend price, whether we are working under a Government order or a classified plan. They pay so much for milk that goes into class 1, which usually includes fluid milk, so much for class 2, and so much for the surplus.

Mr. WILLIAMS. You pay a premium for uniform production?

Mr. BUSH. No, we don't pay a premium for uniform production. The only premium we pay is for quality. That is over and above the regular established price.

Mr. WILLIAMS. You do go through the country and pick out your dairies?

Mr. BUSH. Yes.

Mr. ANDRESEN. You don't make any butter?

Mr. BUSH. In our operation in the Lucerne Milk Co. we do not make any butter. We have a subsidiary of Safeway in the Lakeside Butter Co. that makes butter.

Mr. ANDRESEN. I patronize your stores here occasionally and I always notice that they have about 28 varieties of oleomargarine, they seem to push that and hide the butter in the bottom of the refrigerator.

Mr. BUSH. I had better do something about that because I am in the butter and creamery end of the business.

Mr. ANDRESEN. That is what I was thinking. How much of a margin do you figure that you have in the handling of milk? Mr. Castle mentioned about two-fifths of a cent margin on the dollar.

Mr. BUSH. I mentioned that margin in California. Probably that may be an extreme example. That is 3 cents a quart. That is before taxes. I don't have with me the exact margin on each of our plants, but we would be very glad to supply you with the figures if you would like to have them.

Mr. ANDRESEN. It sells here at 21 cents retail and you pay the producers a little over 15 cents?

Mr. BUSH. That is right.

Mr. ANDRESEN. Your company is a subsidiary of Safeway?

Mr. BUSH. That is right.

Mr. ANDRESEN. So you have probably between 5 and 6 cents differential there?

Mr. BUSH. We have 5.9 cents, in fact. I might say that the internal bookkeeping of Safeway and Lucerne, Safeway operates exactly like any other independent milk company in that milk is billed to Safeway and just the same price that they would pay if they bought it from someone else.

Mr. ANDRESEN. You have a respectable margin in the handling of your milk in the manner that you handle it.

Mr. BUSH. Very, very respectable.

Mr. ANDRESEN. It seems to me it is very efficient. What I was leading up to is this, on butter, and that is one of my primary interests, and I have to go to your stores to buy the kind of butter that I like, and that comes from my country, Land O'Lakes butter: The market

price or support price, and the market price, is around 65¾ cents a pound, or 66 cents a pound. But when I buy that Land O'Lakes butter from your stores I paid I think the other day about 81 cents.

It seems to me that you could be very helpful to the butter industry if you wouldn't take such a big markup on butter. That goes for the other retailers of butter, too.

Mr. BUSH. I am sorry I can't speak with authority on the butter. I am not familiar with that end of our business. Perhaps I imagine the Safeway has to pay more than 66 cents to Land O'Lakes for it.

Mr. ANDRESEN. They would have to pay the transportation for the butter.

Mr. BUSH. Yes, sir. I am sure that in line with Safeway's general policy that they are selling that butter at as reasonable a markup as they can.

Mr. ANDRESEN. And still they have a range in oleo from about 23 to 35 or 39 cents.

Mr. BUSH. It is a good thing for the butter industry that it is not all down at the lower level, isn't it?

Mr. ANDRESEN. I would say there wouldn't be much left of the dairy industry if it got down there. I would like to see Safeway make an experiment here in Washington to forget about the profit and to use butter as a leader so that you can get out of it without taking any loss, and make an illustration in your stores and see how much more butter you can dispose of at the cost price to you, and see whether or not people are interested in eating butter.

Mr. HANSON. Mr. Chairman, if we did that we would have a considerable amount of trouble with some gentlemen down on Constitution Avenue, called the Department of Justice. We are quite certain some of our friends and competitors would be asking us to drop in to the Antitrust Division for loss-leader use.

Mr. ANDRESEN. With all due respect to the Department of Justice under any administration, I can give you an illustration from New York City which took place last week where a firm that makes hotel butter sold butter in 1 store at 55 cents a pound. The regular consumption per week had been around a thousand pounds of butter. For that particular week they increased the sale of butter from 1,000 pounds up to 4,200 pounds, for that 1 week, which demonstrates that butter will move and that people will buy the butter if it is priced right.

I am not asking you to go down to 55 cents, but I would like to ask you to go down to 67 or 68 cents, what you paid for it, just to try the experiment, to see if the people will take butter at a lower price than what you are selling it at now.

Of course Mr. Hanson, I will relate that suggestion to you as general counsel for the company, because butter is the key to a lot of problems of the dairy industry. You might try also the good cheddar cheese and other cheeses made in the United States that come out of the support program.

Unless we can maintain a strong and healthy dairy industry in the country, it is going to be disastrous for the American consumers, and you people will feel it, too.

Mr. BUSH. That is right, sir.

Mr. ANDRESEN. Do you have anything further to add?

Mr. BUSH. No, sir; I think that is all.

Mr. ANDRESEN. I am sorry that our time is limited. We will give careful study to your prepared statement. We may even want to call you back sometime.

Mr. BUSH. I will be very glad to come back at any time.

Mr. ANDRESEN. We are interested in what you are doing to increase the market for dairy products. If you will follow up my suggestion with reference to butter at least as an experiment, I think you will be doing the dairy industry of the country a great service and you might set an example for some of the other retailers in the United States.

We think you very much.

Thank you, Mr. Hanson, also.

(Whereupon, at 12:15 p. m. the committee adjourned, subject to the call of the Chair.)

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